TEACHERS' GUIDE IN ACCOUNTANCY

Volume I

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Project Coordinator

राष्ट्रीय शैक्षिक अनुसंधान और प्रशिक्षण परिषद्
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FOREWORD

The programme of vocationalization of higher secondary education has been accepted by the country as it holds forth great promise for linking education with the productivity and economic development of the country by providing education for better employability of the youth.

In view of the importance of the programme the NCERT is making an all out effort to provide academic support to the implementing agencies in the States. One of the major contributions of NCERT is in the field of curriculum development and in the development of model instructional materials. The materials are developed through workshops in which experts, subject specialists, employers' representatives, curriculum framers and teachers of vocational course are involved. These materials are then sent for try-out in schools and feed back is collected through questionnaries and through direct contact. The materials are also sent to experts for comment before they are published.

The present "**Teachers Guide in Accountancy-I**" has been developed in the manner described above and is meant for the vocational commerce teachers teaching Accountancy. It is being published for wider dissemination among vocational commerce teachers. I hope that they will find the "Guide" useful.

I am grateful to all those who have contributed to the development of this Teachers Guide. I must acknowledge also the immense interest taken by Prof. Arun K. Mishra, Head, Department of Vocationalization of Education in inspiring his colleagues in their endeavours to develop instructional materials. Shri C.K. Mishra, Reader, functioned as the Project Coordinator for the development of this title. He has my appreciation and thanks for planning, designing and conducting the workshops, for technical editing and

for seeing this Guide through the press.

Suggestion for improvement of the Guide will be welcome.

P.L. MALHOTRA
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PREFACE

Ever since the introduction of vocationalization in our school system by several States in our country the paucity of appropriate instructional materials has been felt as one of the major constraints in implementation of the programme and a source of great hardship to pupils opting for vocational studies at the higher secondary stage.

The Department of Vocationalization of Education of the National Council of Educational Research and Training, New Delhi has started a modest programme of developing instructional materials of diverse types to fill up this void in all major areas of vocational education. The task is too gignatic to be completed by any single agency but the model materials being developed by us might provide guidance and impetus to the authors and agencies desiring to contribute in this area. These are based on the national guidelines developed by a working group of experts constituted by NCERT.

The experimental edition of the Guide was developed by a group of experts as Contributors in a workshop held at the Regional College of Education, Mysore. The same was later circulated to receive the feed back from the user teachers in different states of the country. After a period of one year for the try-out, the feed back was received and accordingly the experimental edition was suitably reviewed and revised through a committee of experts in a workshop held at the Regional College of Education, Bhopal. The name of the contributors and reviewers are mentioned elsewhere and their contributions are admirably acknowledged. We are grateful to all the institutions and teachers who have used the Guide and sent their comments. Shri C.K. Misra, Reader & Coordinator of this project, Department of Vocationalization of Educations deserves special thanks for editing and bringing the Guide in the present form. The assistance of all in the Regional College of Education, Mysore,

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GANDHIJI'S TALISMAN

"I will give you a talisman. Whenever you are in doubt or when the self becomes too much with you, apply the following test :

Recall the face of the poorest and the weakest man whom you may have seen and ask yourself if the step you contemplate is going to be of any use to him. Will he gain anything by it ? Will it restore him to a control over his own life and destiny ? In other words, will it lead to Swaraj for the hungry and spiritually starving millions ?

Then you will find your doubts and your self melting away."

M.K. Gandhi

Contents

Introduction

It is a pleasure to place the Teachers Guide in 'Accounting Fundamentals and Select Application' in the hands of the teacher-user. This is a revised and updated version of an earlier cyclostyled material entitled 'Teachers Guide in Accountancy-I'.

The Guide is divided into three parts. First part deals with basic fundamentals starting from the concept of profit and ending in the preparation of final accounts with adjustments and Financial Accounting Principles. An exposure to the various accounting concepts and conventions is also provided. There are eight units in this part as under:

Unit 1	Profit Concept through Single Entry
Unit 2	Basic Accounting Concept and Rules of Debit and Credit
Unit 3	Cash Book
Unit 4	Journal and other Subsidiary Books
Unit 5	Ledger and Trial Balance
Unit 6	Simple Final Accounts
Unit 7	Adjustments and Annual Financial Statements
Unit 8	Financial Accounting Principles

The second Part illustrates the applications of basic Accounting rules and principles in specific types of business activities like consignments, joint ventures, and non-trading concerns. There are three units in the part corresponding to these specific applications. It must be stressed that the applications included are not exhaustive and are aimed at illustrating the practical use of Accounting rules and procedures. It will be seen that these applications call for modifications in the procedures in accordance with the nature, type and size of activities as also in accordance with the form of legal organization of the business entity. Further, the teacher will have a greater freedom in discussing multiple (as against a single and unique one) approaches to recording and profit/loss determination.

The third part outlines the concept of 'practice sets' and underline their utility in the teaching/learning of Accounting. An illustrative practice set is also provided. The teacher may develop similar practice sets' for different topics, and such sets may be comprehensive as well as thematic.

Financial Accounting is gaining a very extensive recognition both within and outside the business world. Corporate and non-corporate business entities engaged in large-sized business are parties to a large number and variety of transactions relating to purchase, sales receipts, disbursements, borrowings, lendings, acquisitons, disposals, raising capital, honouring and establishing claims and so on. In response to these complexities, Accounting as a knowledge area is growing fast. It is only natural to expect that the rules, theories and principles of such a subject will become more exhaustive and complex too. Such a situation obviously offers a real challenge to the instructor more particularly when he/she has to deal with younger persons who can absorb only limited exposures and unambiguous presentation.

The present atempt that has emerged as a 'Teacher's Guide' is intended to achieve the following objectives:

(a) to underline the fact that Accounting is a fast-growing body of knowledge
(b) to stress that it is just not an application of mechanical rules
(c) to highlight that both theory and the practice of Accounting are based on logic which covers postulates, concepts, conventions, and principles
(d) to present the whole subject matter of Accounting in a manner which is interesting and easily intelligible to the students.
(e) to study the basic foundations of the subject in capsules which are smaller parts of a bigger whole. They have been called 'units' in the present guide.
(f) to provide a graduated scheme of learning from simple to more tedious principles and rules
(g) to identify instructional aids that reinforce the verbal instructions inside the class-room
(h) to streamline teaching and instruction through a carefully outlined methodology for theory as well as practicals, and
(i) to build evaluation media in the form of questions, exercises, and short numericals.

Preparation of a Teacher's Guide is a very sensitive task. It is addressed to the average tacher and to some teachers it may appear to be too inadequate or even too naive. But the point at stake is the pedagogy and the sequence of instruction and learning which even better-informed and adequately trained teachers are likely to ignore. It may be expected that a teacher who follows the suggested metho-

dology should be able to involve students more fully and should, therefore, be able to generate a greater amount of interest and clarity on many points.

The use of the 'Guide' is suggested to initiate the process of teaching and not to terminate it. A motivated teacher will, therefore, not only carry the Guide through but also carry it further. However, there would be a few of caveats which must be signalled.

In the first place, the 'Guide' must be thoroughly supplemented by practicals, tests, and versatile audio-visuals, wherever possible.

Secondly, the Guide is only indicative and for topics not covered the teacher may develop his own methodology based on the design presented in the Guide for basic fundamentals of Accounting.

Thirdly, the 'Guide' attempts to present the teaching of Accounting in a format which is closer to business practice. However, business practices differ very widely and this, therefore, limits the efforts to develop highly standardised instructional approach to the teaching of Accounting. The teacher will, therefore, use the guide to make appropriate changes and adoptions according to business practices prevailing in his/her neighbourhood.

The Guide is just a beginning of an effort in an important direction. It is likely to suffer from many inadequacies. Since the user is the best educator, your views and 'feed back' will go a long way in improving and further strengthening its content and methodology.

C.K. Misra
Reader in Commerce
&
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UNIT-I

Profit concept (through single entry method) Basic Accounting Equations

1. Introduction:

An entrepreneur starts a business with a view to making profit. Whether the business is a simple trading concern or a complex manufacturing concern, the motive is the same-namely the making of profit. If there is profit the worth of the business increases. If the business incurs losses the worth of the business declines.

This unit explains the method of ascertaining the profit or loss by comparing the worth of the business on two dates and is known as the single entry system of book keeping. An attempt is made to explain the meaning of the terms profit and loss and the associated terms concerning the measurement of profit. The basic Accounting Equation will also be discussed and explained.

It would thus be seen that both the motive and the worth of a business would be related to profit/loss. And an enterprence would, therefore, want to ascertain his profit/loss during an accounting period. It may be noted that measurement of profit/loss has been made possible through rules of Business Accounting.

2. Objectives:

As the end of the study of this unit the student must be able to

(a) understand the clear meaning of the term profit;
(b) understand the meaning of the terms assets, liabilities and Capital;
(c) grasp the logic of the accounting equation, and
(d) identify assets and liabilities from a group of items and use the information for the ascertainment of profit or loss by single entry method.

3. Course Content:

1. The Statement (Statement of affairs) setting out the assets and liabilities on a particular date.
2. Ascertainment of capital—the accounting equation.

3. Ascertainment of profit/loss for a given period taking into account the drawings and additions to capital made during the period.
4. Limitations of the method—establishing the broad lines which information should be collected to establish the correct profit/loss. Possibility of errors in preparing the statement of affairs—inconsistencies in valuation.

4. Instructional Aids:

1. Teachers Guide
2. Text Materials
3. Problem Materials
4. Photostat copies of a real balance sheet.

5. Methodology:

The methodology illustrated below basically aims at eliciting the answer from the students by framing problems and putting a number of questions to them. After the answers are obtained from the students the teacher may state the technical terms and their precise meaning.

Numerical examples will enable the students to understand the meaning and significance of the accounting equation and its validity under all circumstances. After the discussion is over the teacher may summarize all the basic concepts.

To start with, the students should be familiarised with the terms 'assets' and 'liabilities' and with the broad process for establishing the amounts of various assets and liabilities. *This should be done through discussion and the teacher must help the student to come forward with numerous examples of assets and liablities.* Then the following example may be taken up. The teacher is advised to frame similar problems himself.

Mr X commenced a trading business on Ist January, 1985. He brings Rs. 20,000/- in cash into business and contributes for following items:

Building	Rs. 50,000/-
Furniture	Rs. 10,000/-

As the Cash is not sufficient to carry on the business, he raises a bank loan for Rs. 30,000/- at 18% interest. He buys and sells goods both on cash and credit. On 31st January, 1985 he gives you the

following information:

Cash on hand	Rs. 5,000/-
Cash at Bank	Rs. 20,000/-
Stock of Goods	Rs. 25,000/-
Amounts due from Customers for credit sales	Rs. 20,000/-
Building	Rs. 50,000/-
Amounts owing to suppliers for credit purchases	Rs. 15,000/-

As on 31st January, 1985 interest due on the Bank loan has not been paid.

Now let us answer the following questions:

1. What was the total worth of the properties held by the business on 1.1.1985?
2. What was the total amount that the business owes to outsiders on 1.1.1985?
3. What was the total amount that the business owes to the proprietor X on 1.1.1985?
4. What was the position on 31.1.1985 regarding all the above items?

Meaning of the term 'Assets', 'Liabilities' and 'Capital'

Let us consider the answers to the above questions (The answers are to be obtained from the students)

1. The total worth of the properties held by the business on 1.1.1985 amounts to Rs.80,000/-, being the sum of the value of building, furniture and cash. The properties held by the business are also termed as assets. Asset may be defined as any item of wealth which can be expressed in terms of money.

Any enterprise has its workforce and a good work force is avital asset. Since there are difficulties in quantifying its value, this item is omitted from the financial statements. However the reputation enjoyed by the business called 'goodwill', although intangible, can be approximated to a value in terms of money and is, therefore, shown as an asset.

2. The total amount owed by business as on 1.1.1985 is nil. The amounts owed by business to outsiders (persons and institutions other than proprietors) are termed as liabilities.

Accounting equation

3. The business owes to X Rs. 80,000/- on 1.1.1985. In other words the claim of Mr. X against the business is for Rs. 80,000/- on 1.1.1982. This claim of the proprietor against the assets of the Company is termed as capital. Please note that the proprietor is deemed to be separate from business and this separation is known as the 'Entity Concept'. The claim of the proprietor against business assets arises only bccause of this 'concept'.

The proprietors claim will be equal to the total assets of the business alongwith the claim of others. Legally, others claims have a priority over the claim of the proprietor. Based on this relationship capital may be computed by the following formula:

Capital = Assets—Liabilities.
From this it follows:
Assets = Capital + Liabilities
As on 1.1.1985 Capital = Rs. 80,000/-—zero
= Rs. 80,000/-

The equation given above is known as Basic Accounting Equation.

4. Now let us analyse the position as on 31.1.1985. The total assets on 31.1.1985 were:

Cash on hand	Rs. 5,000/-
Cash at Bank	Rs. 20,000/-
Stock of Goods	Rs. 25,000/-
Amounts due from customers	Rs. 20,000/-
Furniture	Rs. 10,000/-
Buidings	Rs. 50,000/-
Total Assets:	Rs. 1,30,000

Liabilities as on 31.1.1985		
Amount owing to suppliers		Rs. 15,000
Bank Loan	Rs. 30,000	
Interest thereon for one month	Rs. 300	30,300
Total of liabilities:		Rs. 45,300/-

Liabilities represent the claim of outsiders against the assets of the business. Both the creditors and the proprietor have claims

against the assets of the Company. These claims are known as Equities. *An equity may be stated as any claim which can be enforced against the assets of a firm in a Court.* An equity may be a creditors equity or owners eqity. So we can state

Assets=Equities

or Assets=Creditors Equities+Owners Equities

Capital as on 31.1.85

Capital=Assets—Liabilities

Capital=Rs. 1,30,000—Rs. 45,300

=Rs. 84,700

Capital is always what is left after deducting the total of liabilities from the total of assets.

At any moment of time the accounting equation holds good. In other words, it is perpectually true. There is no change or deviation from this equation at any point of time. The students should be invited to test the validity of this by assuming various figures for assets and liabilities.

Meaning of 'Statement of Affairs and Balance Sheet'

Now at this stage it will help us to summarise the financial position of the business as on 1.1.1985.

Financial position as on 1.1.1985

Liabilities		*Assets*	
	Rs.		Rs.
Capital (Balancing figure)	80,000	Cash	20,000
		Furniture	10,000
		Buildings	50,000
	80,000		80,000

Financial position as on 31.1.1985

Liabilities			*Assets*	
		Rs.		Rs.
Amounts owing to suppliers		15,000	Cash	5,000
Bank Loan	30,000		Cash at Bank	20,000
Interest due	300	30,300	Stock of Goods	25,000
Capital Balancing		84,700	Amounts due from	

figure		customers	20,000
		Furniture	10,00
		Buildings	50,000
	1,30,000		1,30,000

A statement of this type prepared without proper records and on the basis of the information furnished by the proprietor is called 'Statement of Affairs'. Where there is elaborate accounting and the statement is prepared with the help of accounting records it is termed as 'Balance Sheet'. In this statement Assets are shown on the right hand side and liabilities on the left side. This is only a convention and has no significance. For example, business enterprises in the USA show assets on the left side and liabilities on the right side.

Position Statement

A Balance Sheet or 'Statement of Affairs' holds good for a particular moment. It may change the next moment because of the occurence of a transaction. For example, if on 1.2.1982 a customer pays Rs. 2,000/-, cash will increase by Rs. 2,000 and the figure of amounts due from customers will decrease by Rs. 2,000/-. Therefore, the Balance Sheet is called a 'position statement'.

Ascertainment of Profit by single entry method

Now, from the two statements of affairs given earlier let us compare the amount of capital as on two dates. The capital as on 31.1.1985 shows an increase of Rs. 4,700/-. What is it due to? It is naturally due to the profit made by the business for the month of January, 1985. During the month of January, the business had certain revenue and certain expenses. As the revenue was more than expenses by Rs. 4,700/- it had resulted in the increase of capital by the same amount. So one convenient method of ascertaining the profit of a business is to compare the worth of business on two different dates which lie at both the ends of the period. Any increase in worth of the business as reflected in the increase of capital can be taken as the profit for the period. Likewise, any decrease in the worth of the business must be taken as the loss for the period in question.

Howevery, changes in the capital can come about due to other reasons. These reasons must be analysed. For example, Capital over a

period may increase due to additonal capital brought into business by proprietor. Therefore, in ascertaining the profit such additional capital must not be taken into account. Likewise, some profit might have been drawn out by the proprietor. To the extent the profits are drawn out, the profit figure would be less. So to ascertain the correct profit, such drawings must be added to the capital at close. The following format will help us to ascertain the correct profit, taking into account the aspects discussed above. The teacher should try to develop the format by the active involvement of the students.

Capital at close		....
Add. Drawings		....
Less Additions to Capital	....	....
Capital at the beginning	....	
Profit for the period		
The rationale of this treatment should be discussed and related to the business entity concept.		....

Measurement of Profit

There are two ways of measuring the profit. One method, namely, the ascertainment of profit by the comparison of net worth on two dates has been discussed above. What are the limitations of this method? The teacher should put the following questions to the students to bring out the limitations of this approach:

1. Is the system of preparing 'Statement of Affaris' scientific? Is there a possibility of missing some items?
2. If there is no consistency in valuation of assets how will it affect the profits computed for the periods?
3. Is it possible to compare the profit computed in this manner for different periods and think of improvements in the conduct of business? Likewise, can we compare the profit computed in this manner with the profit of another firm for drawing meaningful conclusions?

After restating the limitations, the teacher should try to introduce the traditional method of ascertaining the profit, namely, profit

being the difference between revenue of the business and expenses incurred by the business. This he can do with small examples of the following type.

Example:

Mr. Gopi starts his business with Rs. 30,000/-. He purchased goods (all for cash) for Rs. 60,000/-. All the goods were sold for Rs. 1,00,000/-. His other expenses were Rs. 20,000/-. Ascertain his profit.

Solution

I Method

It is obvious that a has Rs. 50,000/- each at the end of the period as shown below:

		Rs.
Opening Balance of Cash		30,000
Cash received through sales		1,00,000
	Total:	1,30,000
Paid for purchases	60,000	
Expenses	20,000	80,000
Cash at the end of the period		50,000

At the beginning of the period as well as at the end of the period he has no assets other than cash. There are no liabilities. Therefore at the end, his capital is Rs. 50,000 i.e. Rs. 20,000 more than the capital at the beginning, and he has earned a profit of Rs. 20,000/-.

II Method

We can also say that the revenue of the business for the period is Rs. 1,00,000/- the cash received from sales. His expenses are Rs. 80,000/-, being the total of cost of goods sold and expenses. Therefore his profit is Rs. 20,000/-. Thus Profit = Revenue— Expenses

It is always desirable to know the details of revenue and various costs and expenses. This is one of the important functions of accounting.

Business Entity concept:

At this stage the teacher can check up the understanding by

students of the business entity concept by framing the following questions and eliciting the answers from them:

1. On which side of the balance sheet is capital shown as an item?
2. Why is capital considered to be a liability?
3. For whom it is a liability and why?

Then the teacher can state that all accounting is done from the angle of the business. Business has a separate entity. It is different from the proprietor. The transactions are entered in the books of the business and not those of the proprietor.

6. Evaluation:

1. Identify the following items as assets or liabilities by placing a tick under the appropriate column

	Assets	*Liabilities*
a) Bank overdraft		
b) Furntiure		
c) Stock of goods		
d) Bills receivable		
e) Bills payable		
f) Loan given to Mr. Y		
g) Loan taken from Mr. X		
h) Buildings		
i) Delivery Van		
j) Capital brought into business by proprietor		
k) Amounts receivable from customers		
l) Amounts payable to suppliers		
m) Salaries unpaid		
n) Deposit for Telephone under O.Y.T. scheme		
o) Amount invested in National Small Savings Certificates		

2. Give answers in not more than one sentence to the following:
   i) Why is capital considered to be a liability?
   ii) What do you understand by the term equity?
   iii) What is the difference between owners equity and creditors equity?
   iv) What is the significance of comparing the net worth of a business on two different dates?
3. Ascertain the missing figures with the help of accounting equation:

Assets	Liabilities	Capital
6000	200	?
8000	?	3000
?	4000	3000
12,500	4500	?
15,000	?	5000
?	7500	4500

4. With the help of the information given below ascertain the profit made by the business for the 6 months ending 30th June, 1985.

Capital of Y as on 1.1.1985	Rs. 30,000
Capital of Y as on 30.6.1985	Rs. 65,000
Drawings for the period	Rs. 6,000

On 31.3.85 he sold his wife's jewellery for Rs. 10,000/- and the amount was paid into the Bank account of the business.

5. Ascertain the profit/loss made by a business with the help of information given below:

		Rs.
1.	Capital of X as on 1.1.1984	50,000
2.	Capital of X as on 30.6.84	60,000
3.	Mr. X drew Rs. 1,000/- each month	
4.	On 30.4.84 he brought Rs. 20,000 as additional Capital.	

6. Do you agree with the following statements? Given reasons for your agreement or disagreement.
   i) Statement of affairs and Balance Sheet refer to one and the same thing.
   ii) Accounting equation is true only when the business is making profit.
   iii) Single entry method is the only method by which profit can be ascertained.
   iv) Balance sheet is prepared for a particular period.
   v) From the accounting point of view there is no difference between the business and its proprietor.

7. Reference

1. Advanced Accounting—By Shukla & Grewal
2. Advanced Accountancy Vol. I By R.C. Gupta and M. Radhaswamy
3. Advanced Accountancy—By H. Chakraborty

UNIT-2

Basic Accounting Concepts Leading to the Rules of Debit and Credit

1 Introduction:

Financial statements can be prepared by different persons in different ways if there are no rules and regulations regarding the manner of preparation and no conventions regarding certain basic aspects such as valuation and inclusion of assets, matching of revenue and expenses etc. In the absence of such rules and conventions it will be difficult to read, understand, interpret and also realize the limitations of such statements. Statements prepared without regard to such conventions lose their credibility. Therefore a proper understanding of the basic concepts is essertial to all accounting work. The present day accounting is done on the basis of double entry system which follows the rules of debit and credit. It will be seen that the rules of debit and credit follow from the basic concepts and conventions which this unit proposes to explain.

2. Objectives:

At the end of this chapter the student should be able

1. to understand the basic concepts and conventions underlying the preparation of financial statements.
2. to understand the various terms used in accounting
3. to identify the various accounts as nominal, personal and real; and
4. to apply the rules of debit and credit with respect to all transactions.

3. Course content:

i) All the basic accounting concepts and conventions.
ii) Classification of accounts.
iii) The application of rules of debit and credit to all transactions.

4. **Instructional Aids:**

i) Financial statements prepared with the help of an illust -tive problem given to students. The complete working done entirely with the help of students must be preserved on the black-board.

ii) The teacher should develop similar problems relating to other types of business.

5. **Methodology:**

All the basic concepts will be introduced through an ilustrative problem. The problem involving the preparation of financial statements is framed in such a manner that the students will themselves be in a position to solve it in his own way. At this stage, the teacher, through a series of imaginative questions, will introduce all the basic accounting concepts and postulates. In the end, he should summarize the whole discussion which helps the student to consolidate the learning of this unit.

The following problem serves the purpose:

Problem:

Mohan commenced a trading business of selling baby cycles under the style 'Popular Cycle Mart'. For this purpose he withdrew Rs. 50,000 from his private bank account. He also raised a bank loan of Rs. 25,000/- @ 16% per annum. Out of the amount he spent Rs. 3,000/- on furniture and Rs. 5,000 on a Typewriter. His transactions for the six months ending with 31st December 1984 are given below:

a) He buys Cycles at Rs. 300/- and sells them at Rs. 400/-. During this period he purchased a total of 1,500 Cycles of which 1,200 have been sold out.

b) He has to spend Rs. 20/- by way of labour for assembling each cycle. Only at the time of sale the Cycle are assembled.

c) The business is carried on in rented premises. The rent for each month is Rs. 100/- p.m. The rent for December '84 was not paid.

d) Electricity bills totalling to Rs. 250/- have been paid upto November 1984. The estimate amount of bill for December is Rs. 60/-.

e) Hire charges for Lorry for transporting cycle parts from the

Manufacturers place to business premises Rs. 1,000/-.

f) Local taxes paid Rs. 300/-.

g) He has a single assistant to manage the shop and he is paid Rs. 200/- p.m. December salary was not paid.

h) He has not yet received the sale proceeds of 200 Cycles.

i) He has not yet paid the cost of 300 Cycles received during December 1984.

j) Bank interest for the three months ending with 30th September 1984 has been paid.

Ascertain:

1. *The Cash balance as on 31st December 1984.*
2. *The Profit/Loss of Mohan for six months ending 31st December, 1984.*
3. *Tabulate the assets and liabilities of the business as on 31.12.1984.*

The Teacher should avoid the formal approach and allow the students to come out with the information needed.

1. Ascertainment of Cash Balance:

The teacher should ask the students to list out the total cash coming into business, and the information given by the students must be written on the black-board. Like wise, he should obtain information regrading various payments.

Cash received by the business

	Rs.
1. Capital contribution by Mohan	50,000
2. Bank Loan	25,000
3. Amount realised from Sale of Cycles (1000 x Rs. 400)	4,00,000
Total of the receipts	4,75,000

Cash payments made by the business

1. Purchase of Assets		
Furniture	3,000	
Typewriter	5,000	
		8,000
2. Cost of Cycles 1200 x 300		3,60,000
3. Labour for assembling the		

	Cycles 1200 x 20	24,000
4	Rent Rs. 100 x 5	500
5.	Electricity charges	250
6.	Local Taxes	300
7	Hire of Lorry	1,000
8.	Salary of the assistant	1,000
9.	Bank Interest Rs. 200 x 5	1,000
	Total of payments.	3,96,050

Cash Balance = Rs. 4,75,000—3,96,050
= Rs. 78,950

In accounting it is convenient to prepare a cash account and ascertain the balance in the manner given below:

Cash Account

Date	*Receipt*	*Amount Rs.*	*Date*	*Payments*	*Amounts Rs.*
1.7.84	To Mohan's Cap.	50,000	1.7.84	By Assets	8,000
to	To Bank Loan	25,000	to	By Cost of Cycles	3,60,000
31.12.84	To State of Cycles	4,00,000	31.12.84	By Labour charges	24,000
				By Rent	500
				By Bank Interest	1,000
				By Electricity charges	250
				By Local Taxes	300
				By Hire of Lorry	1,000
				By Salary of Asstt.	1,000
				By Balance C/d	78,950
		4,75,000			4,75,000

Note: The teacher may note that the cash Account is given only to illustrate the format and role of the Cash Book. In practive, a Cash Book will be maintained and not a Cash Account.

The teacher can now introduce the following:

1. Ledger account and its format.
2. Cash accounts as a real account and the rule of double entry in relation to real accounts.
3. How the account results in debit and credit balances.

II. Ascertainemnt of Profit/Loss for the six months ending 31st December, 1984.

		Rs.
Cost of Cycles purchased 1,500 x 300		4,50,000
Less Cost of Cycles unsold 300 x 300		90,000
Cost of Cycles sold		3,60,000
Add: Expenses for the period:		
Labour charges	24,000	
Rent for 6 months	600	
Electricity charges (including December)	310	
Local taxes	300	
Bank Interest	2,000	
Hire of Lorry	1,000	
Salary of Asstt. for six months	1,200	29,410
Cost of sales		3,89,410
Sales for the period 1200 x 400		4,80,000
Profit for the period		90,590

In Unit I it was pointed out that ascertainment of profit by comparing successive balance sheets is not a good method. It is customary to prepare a detailed profit and loss account which gives vital information to the proprietor. A profit and loss account shows the revenue from sale of goods and services during an accounting period on one side and the expenses incurred for earning such revenue on the other. This is known as the 'matching concept'. If the revenue is more than the expenses there is profit, and loss is incurred in the reverse case.

Now the teacher can shown how the informaton given above can be presented in the form of a profit and loss account.

Profit and Loss account of Popular Cycle Mart for the Six months ending 31st December, 1984.

	Dr. Rs.		Cr. Rs.
To Cost of Cycles purchased	4,50,000	By sale of Cycles	4,80,000
Labour charges	24,000	Stock of Cycles	90,000
Rent	600		
Electricity charges	310		
Hire of Lorry	1,000		
Bank Interest	2,000		
Salary of Assistant	1,200		
Local Taxes	300		
Net Profit for the period	90,590		
	5,70,000		5,70,000

The student should now be asked to notice the following:

1. The net profit is prepared for the accounting entity and is useful for the proprietor or shareholders to know the changes that have come about in their equity. For example, Mohan's claim against the business at the start was Rs. 50,000. Now because of the profit of Rs. 90,590 made by the business, his equity stands at Rs. 1,40,590.

The financial statements are prepared for the business entity and not for the proprietors.

Any transaction not affecting the business entity in one way or the other does not find its place. Such transactions are ignored. Example: Mohan may gift Rs. 500 from out of his personal funds on the occasion of the marriage of his assistant. This does not affect the entity and is therefore ignored.

2. The period to which the profit and loss account relates. In this case it is for a 6 months period. Usually financial statements are prepared for a period of one year. The example only illustrates the application of the 'accounting period concept'. Stricitly speaking, true profit can be ascertained only after the business is liquidated. Since most businesses last several years and are run as going concerns, it becomes necessary to prepare the accounts periodically, the period being one year.

3. In the profit and loss account and the balance sheet only information which can be expressed in terms of money is dealt with. There may be several other factors wuch as good organising ability of the proprietor and effective salesmanship fo the assistant which

cannot be quantified in terms of money and therefore do not find a place. Because of 'Money measure convention' transactions which cannot be measured in terms of money are not taken into account.

4. The difference in the amounts of rent, bank interest, salary of the assistant and electricity charges as shown in the cash account and profit and loss account reflects expenses which the business was under an obligation to pay during the accounting period ending on December 31, 1984 but could not pay them by that date. This gives scope for discussing the accural concept in relation to expenses as well as revenue.

At this stage the teacher should deal with the following:

1. Need for nominal accounts to record revenue and expenses.
2. The rule of double entry in relation to nominal accounts.
3. The fact that nominal accounts are opended every year and closed at the end with a view to ascertaining the profit or loss.

III. Statement of assets and Liabilities as on 31.12.1984.

Assets		
1. Cash Balance		Rs. 78,950
2. Amounts due from Customer		
200 x 400		80,000
3. Stock of Cycles		
300 x 300		90,000
4 Furniture		3,000
5. Typewriter		5,000
		2,56,950
Liabilities		
1 Amounts owing for expenses		
Rent		100
Salary		200
Electricity charges		60
		360
2. Amount due to the Hero Cycle Company		
300 x 300		90,000
3. Bank Loan	25,000	
Interest thereon	1,000	26,000
4. Mohan's Capital		
Balance at the beginning	50,000	
Add Profit	90,590	1,40,950
Total:		2,56,950

Now the teacher can present the information in the form of a balance sheet and the following points can be discussed:

1. Furniture and Typewriter are shown at the cost at which they are acquired. In accounting assets are recorded at historical cost and continue to be recorded at the same price. However, since the asset has only a definite period of life, a proportion of the cost expires and is written off as depreciation.

The teacher may ask the students about other way in which the asset value may be expressed and then bring in the merits of historical cost-namely objectivity and verifiability. For example, is it possible to have 'objectivity' if the account chooses to value assets on the basis of realisable market values? (Historical cost concept).

2. Can we have historical cost valuation one year and switchover to realisable market value in another? What will happen if there is no consistency in the valuation of assets. (consistency concept)

3. If the market value of a piece of machinery is far less than its cost, should we revalue such an asset. As the business is likely to continue in the foreseeable future should be concerned with its market value or its value in use (Going concern concept).

4. Why not value stock of cycles at sale price of Rs. 400 instead of the cost price of Rs. 300? If stock is valued at sale price what will be its effect on measurement of profit? Should we not be prudent in the matter of measuring profit as well as valuation for Balance Sheet purposes (Prudence concept).

5. Should we show more details of the amounts due from customers. Would it alter the balance sheet materially? Will it not be confusing to give more details whether it be profit and loss account or balance sheet when such details are not material (Materiality concept).

Accounting Cycle:

The concept of accounting cycle may now be introduced through a series of questions posed to the students. The following questions may be asked:

1. Why not have few accounts instead of such a larger number of accounts that accountants usually open?

2. How do you clarify the various types of accounts?

3. What purpose is served by the opening of accounts for equities and assets?

4. What purpose is served by the opening of accounts for revenues and expenses?

5. What happens to the balances of revenue and expense accounts after the preparation of profit and loss account?

6. What types of accounts remain after the preparation of profit and loss account and where do they figure?

After this, the teacher may summarize the stages of accounting Cycle viz.,

1. Journalising the transactions.
2. Posting of the transactions after opening the necessary accounts.
3. Extracting a Trial Balance
4. Journalising the adjustments.
5. Passing of closing entries and the preparation of profit and loss Account.
6. Preparation of closing Balance Sheet.

The teacher should emphasize that the closing balance sheet will be the starting point for the next accounting cycle.

6. Evaluation:

1. Why is Time period an important concept in accounting?
2. What do you mean by the term 'Accounting Cycle'? What accounts will have zero balances when the accounting cycles is completed?
3. Mention the four main types of adjustments which become necessary because of 'accrual concept'.
4. Stock of goods is valued at cost or market price whichever is lower. What accounting concept governs this principle?
5. A business which receives large number of customers, purchases a 'Tea set' should the expenditure be capitalized?
6. In valuing assets historical cost rather than market value is preferred Why?
7. How are fixed assets of unlimited life shown in the balance sheet from time to time?
8. Do you show fixed assets of limited life at the same value year after year? If your answer is no, give reasons for the same.
9. From the items given below tick those needed for the preparation of profit and loss account.

Sales	Rent for premises
Cost of goods	Wages

Amounts received from customers	Taxes
	Copyrights purchased.

10. From the items given below tick those needed for the preparation of balance sheet.

Prepaid rent	Furniture & Fixture
Amounts due from customers	Patents owned
Cash sales	Payments to supplies
Capital balance	Profit & Loss Account Balance

11. For the transactions given below state the account to be debited and credited.

Transaction	*Account to be debited*	*Account to be credited*
1. Goods worth Rs. 500/- purchased for Cash		
2. Purchase of furniture for Rs. 1,000/-		
3. Dpositing of Rs. 800 in Bank		
4. Goods worth Rs. 500 sold for Rs. 800		
5. Paid Rent Rs. 200		
6. Commission received Rs. 300/-		

12. i) State the effect of each transaction given above on the Accounting equation.
    ii) Prepare a Trial Balance resulting from the transactions and state which of the balances will be transferred to Profit and Loss Account.

13. State whether the following statements are 'True' or 'False'.
    i) Profit and Loss Account is a position statement.
    ii) Valuing stock on the Principle 'Cost or Market Price' whichever is less violates the concept of consistency but is in accordance with prudence concept.
    iii) Balance sheet is nothing but a statement of balance that remain after the preparation of profit and loss account
    iv) Concepts of prudence and consistency are applicable

only to the preparation of balance sheet and not profit and loss account.

14. Raju commenced a small manufacturing business on July 1, 1984. He withdrew Rs. 50,000 from his private Bank account; he borrowed Rs. 20,000 @ 18% P.A. from Mrs. Raju. Out of the available funds he purchased machinery for Rs. 60,000. The life of the machinery was 10 years.

    He purchased two lots of raw materials as follows:
    10,000 Units @ Rs. 9/- per unit
    6,000 Units @ Rs. 10/- per unit
    The expenses payable in Cash were the following:

Wages	Rs. 3,000 per month
Other Manufacturing expenses	Rs. 2,000 per month
Selling and Office expenses	Rs. 1,500 per month

Every month beginning with August, he withdrew Rs. 1,000/- per domestic expenses. All expenses for a month were paid on the first of the next month;

At the end of December 1984 1,000 units raw materials were still in stock. The production was 12,500 units; out of these, 10,000 units were sold @ Rs. 16/- per unit—the sale proceeds for 1,000 units were still to be collected.

Ascertain:

1. The cash Balance as on 31st December
2. The Profit/Loss of Raju for the six months and ending 31.12.84; and
3. Tabulate the assets and liablities of the business as at the end of 1984.

References

1. Advanced Accounting—By Shukla & Grewal
2. Advanced Accountancy—By R.L. Gupta and M. Radhaswamy
3. Advanced Accountancy—By H. Chakraborty

UNIT-3

Cash Book

Cash Book is the nerve centre of accounting system. Cash is extremely important in any business concern, whether small or big. Cash transactions must be recorded properly; students should know the practical aspect of cash transactions. Hence it becomes necessary for the student to know how cash is written from original documents so that they are able to maintain the cash book in a real life situation. Bank transactions are almost cash and these are also equally important in business firms. Hence their record should also be made in the cash book. From the vocational point of view student should have mastery over the recording of cash and bank transactions. Establishing the accuracy of the record in these respects is of importance as the reliability of books of accounts depends on the cash book.

2. Objectives:

Objectives of this Unit are the following:

1. Student will be able to understand the importance of Cash and Bank transactions in business.
2. Students should be able to recognize the different documents used in Cash and Bank transactions.
3. Students will be able to write the simple column cash book, two column and three column cash books and petty cash books from the original documents.
4. Students will be able to appreciate the practical use of writing cash book such as tally cash every day, knowing the position of bank balances, etc.
5. Students should be able to prepare Bank Reconciliation statement from cash book and pass book extracts and realize the importance of this statement being prepared at least every month.

3. Content

Following topics will be included in this Unit:

1. Simple Cash Book:

This is book of original entry as the cash transaction is recorded first in this book then it is posted to ledger accounts. Student should understand that cash book in both ledger and subsidiary book ruled in Account form. Cash transactions of the day are recorded in cash book from original documents and not form exercises. But for the sake of convenience teachers may use exercises after they show real cash book and original document to students.

2. Two column Cash Book:

When the transactions relating to discounts are numerous the businessman may go in for two column cash book. It is just like a cash book, with the addition of one additional column for discount both on the debit and credit sides. It should be properly understood that only cash discount is recorded in two column cash book. Wherever you write cash, write discount also. It is presumed that teacher will explain the meaning of these discount and also explain the posting of these transactions. One point should be remembered that discount column totals are transferred to discount account into the ledger.

3. Three column Cash Book:

In business we find cash transactions as well as bank transactions. When bank transactions are many three column cash book (with columns for cash, discount and bank) is maintained by businessman. One additional column for bank transactions to two column cash book is ruled on both the debit and credit sides. All transactions relating to cash, bank, and discount are recorded in the three column cash book.

Before introducing this topic students must understand some bank operations like opening of current account, writing cheques, depositing cheques, using pay-in-slips etc. Then only cash book should be introduced to the class.

The most difficult item which is not followed by students is 'contra entry'. The word 'contra' is taken from latin word meaning 'opposite' side. It should be kept in mind that contra entry effects two accounts, namely a cash account and bank account. If a transaction is showing effect on both cash and bank accounts, it is a contra entry. This cash book is written from pay in-slips, cheques and vouchers.

4. Petty Cash Book:

Big business concern usually maintain petty cash book for recording petty expenses like, wages stationery, postage, cooli charges etc. The cashier gets a cheque from the Head Cashier and uses this money for making petty payments against vouchers. It means this book is also written from vouchers. Students should understand the meaning of imprest system thoroughly so that they can write petty cash book properly.

Instructional Aids

Practice set should consist of the printed copies of original cash vouchers, documents from which the student will be required to write the cash books.

5. Methodology:

The teacher may adopt some of the folloiwng methods for teaching recording of transactions in the cash book.

1. Lecture—demonstraction method
2. Discussion method
3. Project method—Students Book store, Students Bank.
4. Problem solving method
5. Textbook assignment method
6. Question answer method.

The methods relevant in this Unit will be 1, 2, 4, and 6. First of all students should be introduced with the broad outline of the subject, and then followed by discussion covering the following aspects.

a) Every business maintains a cash book.
b) Cash means coins, currency notes, cheques, bank drafts.
c) In practical life cash trnsactions are never in the form of exercises but they are in the form of written documents or vouchers.
d) Cash transactions of one day may be taken and not for one month as is given in text book.
e) Cash Book should be balanced daily. This should be brought to the notice of the students.

Students should know the theoretical portion of cash book so that they will be able to understand the practical aspects of recording cash transactions in the cash book. Teacher should give information to the students. At first the photostat copies of real vouchers, relating

to both cash and bank transactions for one day should be given to the student. They should be asked to

i) ascertain in a neat manner the cash balance at the cnd of the day; and

ii) similarly ascertain the balance at Bank.

Then they should be led to see the advantage of combining (i) & (ii) at the sametime through two column cash book (having cash and bank columns) and then lead to the three columns cash book. The advantage of the imprest system of petty cash and the Analytical petty cash book should be brought out by first making entries from small vouchers in the main cash book and then recording them separately in the petty cash book.

Posting into ledger should be demonstrated and the importance of folios should be brought out for cross referencing.

While introducing the topic real cash book and vouchers should be shown to students and their relationship should be explained. If possible the students may be allowed to use the real cash book.

If a voucher prepared by the outside party e.g. cash memo for purchase of goods is not available, the management generally prepares it own cash voucher. It should be remembered that in real life there is a voucher behind every cash transactions.

The teacher should take some vouchers and demonstrate how the cash book is written from vouchers complete with rulings, balancing etc. Students should observe this demonstration carefully. Afterwards photostat copies of vouchers should be given to students for writing the cash book. The teacher should see to it that students always prepare the cash book in proper manner. It becomes necessary on the part of the teacher to take some exercise an workout in the class room with the help of blackboard. Another problem similar to previous one should be given to students for solving it in the note book. Students may rule the cash book with the help of scale and the teacher may move in the class room to help the students is solving the problem and correct their mistakes.

It should be kept in mind that big size blackboard should be used extensively for demonstration purpose. Sometimes students may be called to workout the problem on blackboard.

Some exercises should be given to the students for homework and class work. Home work should be checked by the teacher everyday otherwise the very purpose of giving home work will be defeated.

Students may be taken to school office where the cashier writes

cash book from vouchers. They should observe his work carefully and see the cash book and vouchers. The teacher may organize the field trip with a view to visit some business firms. Students should observe the writing of cash book and they may be asked to prepare a reprot on it.

It is most desirable to start a students book stores in the school/-college with the help of commerce teacher so that students will actually work in the store and some of them will write cash book from cash bills or vouchers.

If students are placed on job in some business firms the students will have experience in wirting cash books. Teacher may contact some business firms for this purpose.

Students can also work as a mess secretary of the hostel mess and keep an account of cash transaction and learn about the writing of cash book.

The commerce department of the school/college may set up a commerce laboratory in which old Accounting Registers of previous years may be kept for students observation.

Students may be asked to prepare vouchers in the class-room so that they can distinguish between cash vouchers and credit vouchers.

6. Evaluation:

The main purpose of teaching any subject is that the students should learn. Really speaking, teaching, learning should go together. Whatever the students learn should be evaluated. Students knowledge andskill in writing cash book can be evaluated by using following ways:

1) Objective type questions on cash book may be prepared by teacher or he may get these questions from the books given at the end. (Illustrative questions are given below):
2) Performance test may be given to students in the class-room. The student is asked to write the cash book from cyclostyled vouchers. If he can write the cash book correctly the purpose of teaching cash book is served.
3) Problems on cash book should be given to students so that he can work out in the ruled cash book. (Illustrative problem given below).
4) A practice set containing copies ofreal cash vouchers should be given on the basis of which the cash book should be prepared along with the petty cash book.

Exercise — 1

Prepare the cash book from the following transactions:

1 Jan. 1984 Ramesh started business with cash Rs. 10,000/-

2 Jan. 1984 he purchased goods for cash Rs. 2,000/-

6 Jan. 1984 he purchased goods on credit from Ganesh Rs. 5,000/-

8 Jan. 1984 he bought office furniture Rs. 1,000/-

10 Jan. 1984 he sold goods toSuresh for cash Rs. 3,000/-

15 Jan. 1984 paid in the State Bank of India Rs. 3,000/-

20 Jan. 1984 received commission Rs. 1,000/-

30 Jan. 1984 paid rent Rs. 150/-

31 Jan. 1984 paid for stationery Rs. 100/-

Exercise — 2

Enter the following transactions in the cash book with cash, discount and bank columns.

April 1 Balance of cash in hand Rs. 400/- overdraft at Bank Rs. 5,000/-.

April 4 Invested further capital Rs. 10,000/- out of which Rs. 6,000/- deposited in the Bank.

5 Sold goods for cash Rs. 3,000/-.

6 Collected from debtors of last year Rs. 8,000/-.

10 Purchased goods for cash Rs. 5,500/-.

11 Paid Ramvihar, our creditor Rs. 2,550/-, discount allowed by him Rs. 65/-

13 Commission paid to our agent Rs. 530/-

14 Office furniture purchased from Keshor Rs. 200/-

14 Rent paid Rs. 50/-

14 Electricity charges paid Rs. 10/-

16 Drew cheque for personal use Rs. 700/-

17 Cash sales Rs. 2,500/-

18 Collection from Atal Rs. 4,000/-, deposited in the Bank on 19th April.

19 Drew from Bank for office use Rs. 500/-

22 Drew cheque for petty cash Rs. 150/-

24 Dividend received by cheque Rs. 50/- deposited in the Bank on the same date.

25 Commission received by cheque Rs. 230/- deposited in the bank on 28th.

29 Drew from the Bank for salary of the office staff Rs. 1,500/-.
29 Paid salary of the Manager by cheque Rs. 500/-.
30 Deposited cash in the Bank Rs. 10,000/-.

Exercise—3

Prepare the petty cash book from the following information:

1984			
Oct.	1	Amount of imprest received from Cashier	Rs. 100.00
	3	Paid for typing paper	4.00
	4	Office cleaning	2.00
	6	Postage paid	5.00
	8	Cartage paid	1.00
	10	Postage	3.00
	11	Ink	1.50
	13	Typewriting ribbon	5.00
	15	Telegram	3.50
	16	Cleaning	1.00
	25	Window panes	13.00
	27	Postage	12.70
	30	Stationery	15.00

References:

1. Double entry book keeping by T.S. Grevel
2. New Trends in Teaching Book keeping and Accounting by P.M. Sapre RCE Mysore.
3. Teacher's Guide in Book keeping by S.B. Maheshwari, RCE Bhopal.
4. Book Keeping & Accounting through practice sets by RCE Bhopal.
5. Improvement of instruction in Book Keeping & Accounting by RCE Bhopal.
6. Teaching Book Keeping and Accounting by B. Musselman & Hanna.

7. Advanced Accountancy by M.C. Shukla & T.S. Grewal.
8. Advanced Accountancy by R.L. Gupta & M. Radhaswamy.
9. Work Book in Book Keeping by Prasad & Nemade.

8. Bank Reconciliation Statement:

Most often the businessman finds that his cash book (Bank column) balance and pass book balance do not agree. He prepares a bank reconciliation statement with a view to reconciling the two balances mentioned above. It helps him locate the discrepancy on account ofwhich the two balances do not tally. The periodic preparation of bank reconciliation statements act as preventive device for the staff of the customer and the bank from including into any kind of mis-appropriation.

Objectives:

1. Students will be able to trace the items to be entered in the Bank Reconciliation Statement by compairing cash book and the pass book transactions.
2. Students should be able to know why there is a difference between the cash book (Bank column) balance and pass book balance.
3. Students should understand the importance of Bank reconciliation statement in Accounting System.

Content:

Following topics may be included in this Unit:

1. Causes for difference between cash book (Bank column) balance and pass book balance.

PASS BOOK

Messrs Tall & Short, Faiz Bazar, Delhi-6, in accounts with Punjab National Bank, Durgaganj, Delhi-6.

Date	*Particulars*	*Withd-rawals*	*Deposits*	*Dr. or Cr.*	*Balance*
1985					
Jan 2	By cash		4000.00	Cr.	4000.00

4 To Furniture Dealers	600.00		Cr.	3400.00
7 To Das & Co.	1250.00		Cr.	2150.00
10 BY T. Johnson & Co.'s Cheque		350.00	Cr.	2500.00
12 To Roy & James	1000.00		Cr.	1500.00
15 By Basu & Son's cheque		760.00	Cr.	2260.00
16 By cash		300.00	Cr.	2560.00
20 To Cash	500.00		Cr.	2060.00
26 By Jai & Co. cheque		430.00	Cr.	2490.00
To Preimum paid as per standing instructions	250.00		Cr.	2240 00
To Bank charges	10.00		Cr.	2230.00
By interest collected on Govt. securities		200.00	Cr.	2430.00

2. It should be emphasized that these outcomes are not ready-made as they are given in the text book they are to be found out by the cashier or accountant. As it is not possible to use the real cash book and pass book in class room, teachers may use the extracts from cash book and pass book. Cyclostyled copies of these extracts may be given to students for working them out in the class room.

3. Why cash book or Pass book is debited or credited should be explained to the students.

4. Charts showing the formula of items to be added or deducted should be prepared and used in the class room.

Exercises should be developed by the teacher for positive balance and overdrafts.

Exercise—3

Pass book of Ramesh shows an overdraft of Rs. 650/- on 31st March 1984. This does not agree with the cash book balance.

Cheque amounting to Rs. 15,000/- were paid into Bank in March out of which it appears, only cheques amounting to Rs. 4,500/- were credited by Bank. Cheque issued during March amounted in all Rs. 11,000/- out of these cheques for Rs. 3,000/-were unpaid on 31st March, 1984. The Bank has wrongly debited my Account No. 1 with Rs. 500/- in respect of a cheque drawn on Account No. 2. The Account stands debited with Rs. 150/- for interest and with Rs. 30/- for bank charges. The Bank has paid the annual subscription of Rs. 100/- to my club according to my instruc-

tions. The entries for interest charges and subscription have not been yet made in the Cash Book.

Prepare the Bank Reconciliation Statement from the above information.

Evaluation:

The teacher may prepare some objective type questions on Bank Reconciliation Statement and may administer them to students in the class room. The teacher may make use of books suggested in reference section. Some exercises on positive balance and negative balance of cash book and pass book may be developed and the students may be asked to work out those problems at home or in the class.

Extract from cash book and pass book may be given to students and they may find out the causes of difference between the two balances and then they may prepare the Bank Reconciliation Statement.

References:

1. Double Entry Book-keeping by T.S. Grewal
2. Teacher's Guide—in Book Keeping by S.B. Maheswari, RCE Bhopal.
3. New Trends in Teaching Book-keeping & Accounting by RCE, Mysore.
4. Advanced Accountancy by M.C. Shukla T.S. Grewal
5. Work Book in Book keeping by Prasad Nemade.

UNIT—4

Journal And Other Subsidiary Books

1. Introduction:

The final accounting statements are prepared on the basis of Ledger accounts. It is important that Ledger accounts are prepared carefully and accurately. A test of this accuracy is generally administered before compiling the final accounts. This is known as the 'Trial Balance' and is discussed in details in Unit 5.

A very critical point to be considered in ensuring accuracy of Ledger accounts is in the determination of accounts which will receive a 'debit' and accounts which will receive a credit. This, in turn, will depend upon practice. Transactions are usually numerous and on a single day there may be transactions of many different kinds. Practice through these transactions, will enable the accountant to determine the accounts to be debited and the accounts to be credited.

Another consideration in the accuracy of the ledger will be to ensure that no transactions are omitted. For this, it will be desirable that all transactions are first noted in their chronological order in some rough or memorandum type of book. Alternatively, the vouchers supporing these transactions are filed in order of their dates and then used for recording entries in books of accounts.

To facilitate and simplify accounting work, transactions are generally classified as follows:

1. Cash Transactions:
2. Credit Purchases of goods in which the firm deals or of materials whcih the firm utilises in manufacturing;
3. Credit Sale of goods mentioned in (2) and
4. Other transactions not covered by any of the three above categories.

Cash transactions have been dealt with in Unit III. In the present unit, transactions other than cash transactions will be covered.

2. Objective:

The objective of this Unit are the following:

i) To amplify the meaning and bring out the rationale of the

rules of debit and credit (mentioned briefly in Unit II).

ii) To emphasize that the various subsidiary books (including the Cash Book) belong to the same family of books that bring out clearly the accounts which are to be debited and of the accounts which are to be credited and, thus, bring home the meaning of 'Journal', 'Journalising' etc.

iii) To show how through posting into the ledger, the principle of double entry is maintained and

iv) To show how transactions of a particular type can be treated specially (like credit purchases and sale of goods) when they are numerous.

3. Contents:

The following are the contents of this Unit:

1. A brief view of the accepted rules regarding debit and credit into accounts of various types, taking different kinds of transactions into account;
2. Treatment of the Credit purchases of goods in which the firm deals or the raw materials which the firm uses to produce goods in which it deals;
3. Treatment of Credit sales of goods in which the firm deals.
4. Treatment of various other transactions of the firm.

4. Instructional Aids:

Photostat copies of original vouchers of a firm—the vouchers should cover different types of transactions. The students should themselves rule the books that may be needed—this by itself will be a good exercise in making the students think as to how they can make a book more useful by providing more information without much extra cost. Also photostat copies of the Day Book (a few pages) should be available.

5. Methodology:

At first the various types of accounts should be shown along with the side on which an amount is to be entered, if the amount in the account is to increase or decrease.

Thus,

(Asset Accounts) (For Example Cash Account)

Dr.	Cr
Increase	*Decrease*
If the amount of this asset will increase, the concerned figure should be put on the left hadn side i.e. 'Debited with Account.	The figure for decreasing the amount of the asset will be put on the right side, i.e. it will be 'Credited to the Account'.

Expense (or Loss) Account
(Say Interest Account)

Dr.	Cr.
Increase	*Decrease*
If the amount of this item will increase, the concerned figure should be put on the left hadn side i.e. debited to the account	*The figure for decreasing will be put on the right hand side i.e. it will be 'credited to the account'*

Liability Account (Say Loan Account)

Dr.	Cr.
Decrease	*Increase*
A transaction decreasing the amount is entered on the left hand side i e. debited to the account.	A transaction increasing the amount is entered on the right side i.e. credited to the account

Income Account (Say Sales Account)

Dr.	Cr.
Decrease	*Increase*
A transaction decreasing the amount is entered on the left hand side i.e. debited in the account.	A transaction increasing the amount is entered on the right hand side i.e. credited in the account.

CAPITAL ACCOUNT

Dr.	Cr.
Decrease	*Increase*
A transaction decreasing the amount is entered on the left hand side i.e. debited in the account.	A transaction increasing the amount is entered on the left hand side i.e. credited in the account.

On this basis the rules of debit and credit should be developed and then posting should be discussed.

ONE EXAMPLE (For Journal and Ledger)

JOURNAL

Date	*Particulars*	*L.F.*	*Amount Dr.*	*Amount Cr.*
1984				
May 5	Cash Account	Dr.	600.00	
	To Goods Account			600.00
	(Sale of goods for cash vide cash memos).			
8	Mohan			
	To Cash Account	Dr.	425.00	
	Discount Account			410.00
	(Being cash paid to and			15.00
	discount allowed by Mohan			
10	Goods Account	Dr.	800.00	
	To Dutt			800.00
	(Being the goods purchased from Dutt on credit			

Cash Account

Dr. Cr.

Date	Particulars	Folio	Amount Rs.	Date	Particulars	F.	Amt. Rs.
1972 May 5	To Goods Account		600/-	1972 May 8	By Mohan		410/-

Goods Account

1972 May 10	To Dutt		800/-	1972 May 5	By Cash Account		600/-

Discount Account

				1972 May 8	By Mohan		15/-

Mohan

1972			
May 8 To Sundaries			
Cash	410	Rs.	
Dis.	15	425/-	

Dutt

1972 May 10 By Cash Account	800/-

NOTE: On the basis of the examples, 'Journal' and 'Journalising' should be demonstrated. Posting into the the Ledger should then be shown.

Credit Purchases

Only credit purchases of the goods dealt in are to be entered. The students should be encouraged to develop the Purchase Book (or Purchase Day Book, as it is called; even the name 'Purchase Journal' is acceptable). For the totals one draft journal entry may be prepared, showing Purchase Account Dr.
To (each Credit supplier by name)

After this, it should be demonstrated how posting can be made directly into the Ledger into accounts of suppliers daily and into the Purchase Accounts at the end of the month. A chart to show postings may be enclosed at the end.

At this stage a number of vouchers should be given to the student—these should cover (1) Credit purchase of goods in which the firm deals or the materials that the firm needs, (2) Cash purchases/ of similar goods; and (3) Credit purchases of other things such as, Furniture, typewriters etc., for use in the Office. The student should be asked to draw up the Purchase Book. To enable him to check the accuracy, the total of the Purchase Book should be given out. In case of a mistake, the student should be made to think as to what is wrong. He should also carry out postings in the ledger.

Sales Book:

The treatment is like Credit Purchases and the matter should be

dealt with accordingly with the necessary changes. *Chart may be prepared illustrating the postings in the Sales Book on similar lines to that of a Purchase Book.*

Other Transactions:

The student should be encouraged to think of transactions not covered by Cash transactions, Credit Purchases and Credit Sales discussed above. He should also prepare the required journal entry and do the posting. The difference in the treatment of, say interest paid when due and interest due but not yet paid and then paid later should be brought out. The reason for such entries should be discussed.

At this stage a complete set of vouchers should be given to the student who should then write up all the required subsidiary books. (The set should contain many sales returns items). The totals of the various books should be given out and the students then made to locate the errors if any committed by them.

Introducing another Subsidiary Book:

Taking the case of many sales returns, the students should be encouraged to develop the idea of the Sales Returns Book and thus reduce the accounts work. This idea is for general application.

Day Book:

Photostat copies of a few pages of a Day Book found in an industrial or trading concern should be distributed among the students. They should then be encouraged by discussion in the class to highlight the features or characteristics of the 'Day Book'. They should then compare the Day Book System with the system outlined in this Unit as well as in other unit and see how in any sizeable concern the Day Book system will mean more work and also a larger number of errors.

Evaluation:

Evaluation of the work of the students should be carried out by means of a comprehensive exercise on the basis of a set of actual vouchers—the exercise should involve:

1. Preparation of the subsidiary books including the Cash Book,

and

2. Posting of Ledger Accounts

A certain number of marks should be reserved for development of a new subsidiary book—this should be ensured by giving about 10 transactions of one type, say, issue of hundis in favour of suppliers. Neatness should be given credit; for which a certain number of marks should be reserved.

References:

1. New Trends in Teaching Book—Keeping and Accounting (pages 33 to 39) published by NCERT, New Delhi.
2. Teaching Book-keeping and Account (Chapters 8 and 9) by Musselman & Hanna.
3. Double Entry Book-keeping by Prof. T.S. Grewal.

Enclosure I

PURCHASE BOOK

Date	*Particulars*	*L.F.*	*Details Rs.*	*Amount Rs.*
1984				
June 3	Ideal Furnishers, Delhi		200.00	
	(10 charıs at Rs˙ 20/-		500.00	
	5 tables at Rs. 100/-		10.007	10.00
	Dellivery and Cartage			
	(Invoice No......Date........			
8	Rao and Co., Hyderabad			
	10 Steel Cabinets at Rs. 200/-		2,000.00	
	Packing and delivery		150.00	2,150.00
9	Steel Furniture Co., Delhi			
	50 Collapsible chairs			
	at Rs. 15/-			750.00
	(Invoice No.........dated.........			
			TOTAL	3,610.00

LEDGER

Dr.							Cr.
Date	Particulars	F.	Amount	Date	Particulars	F.	Amt.
				1984 June 3	*By Purchases*		*710/*

Rao & Company

				1984 June 8	By Purchases		2,150/

Steel Furniture Co.

				1984 June 15	By Purchases		750/

Purchase, Account

1984 June 30	to Pruchases (as per P Book)		3,610/-				

UNIT—5

Ledger & Trial Balance

Significance of balances......Suspense
Account

I. Introduction of the Unit:

We have seen in the previous Unit (No. IV) the importance of Journal, Subsidiary books and the procedure of journalising the transactions of the day. The journal determines which account is to be debited and which account is to be credited, and how these are entered in the journal. The subsidiary books relate to reording of credit transactions.

Now, it is necessary to gather all transactions in a period relating to a particular subject at one place. This is the Principal Book since it contains all that information, properly summarised and classified for further processing which would mainly be the preparation of the final statements of accounts. It is *obviously important that there are no errors in preparation of ledger accounts.* This is ensured by means of the Trial Balance. Also, further work is based on the Trial Balance itself.

II. Objectives of the Unit

1. Preparation of Ledger accounts i.e, Posting on the basis of the subsidiary books (the matter has been dealt with in the units III and IV) and balancing them.
2. Preparation of the Trial Balance and location of errors, if any.
3. Understanding the significance of the various ledger balances.
4. Proper grouping and classification of the various ledger accounts.

III. Contents of the Unit

1. Review of the posting work into the Ledger on the basis of various subsidiary books.
2. Balancing of the accounts:—
    a) Those to be balanced immediately; and
    b) Those to be kept open for the present

3. Preparation of Trial Balance
4. Identification of errors and its rectification.

IV. Instructional Aids:

Cyclostyled list of balances and an 'agreed' trial balance with omissions and errors should be provided to the students in order to avoid wastage of time in dictating the problem or writing it on the black-board.

V. Methodology

Using the comprehensive exercises developed in Unit IV, the students should be asked to carry out the postings and also balance the accounts that have to be balanced immediately. Then list the balances of debits and Credits (including the balances in accounts not yet balanced) separately in two columns as asingle sheet. The Cash Book balances must also be brought into account.

At this stage, the statement should be named as Trial Balance. The students should be asked to total the two columns and see whether the totals of two columns agree.

If there is agreement, nothing further is needed but the student should be asked to compare the list of the balance with the ledger accounts again in case there is an omission.

If the Trial Balance does not agree the students should be asked to:

1. again check the totals of two columns of the Trial Balance;
2. see that all balances are listed on the correct side, particularly the accounts whose balance is equal to half the difference;
3. see that no balance is omitted from the Trial Balance, particularly those balances which are equal to the difference;
4. balance and total accounts again;
5. see that the postings of amounts equal to the difference or half the difference have been correctly made; and
6. if the difference still remains, carry-out the complete check of the postings with the help of say 'red pencil'

NOTE: The teacher should direct the students to take the steps mentioned above *one by one. A solved exercise wherein various errors are deliberately made should be given to the students and they should then be asked to locate the clercial*

errors as well as errors of principle. (Encl: I. Enclosed at the end)

Rectification of Errors:

It has to be emphasised that there must be no overwriting. (a) If an error is discovered immediately, the wrong figure may be replaced by the correct figure with initials of the person entitled to rectify; (b) If the error is found after some time, rectification has to be by means of another entry in the account.

Example:

Suppose a sale of Rs. 1350 is made to M/s Ram Mohan & Co. but the amount posted to his account is Rs. 1530.

a) The error is immediately seen, then the correction is:

Ram Mohan & Co.

1982	Rs.	
Jan. 15 To Sales	1530.00	(Initials of the clerk with date)

b) If the error is found at the end of the month, say, the account of Ram Mohan & Co., will appear as shown below:

1982	Rs.	1982		Rs.
Jan. 15 To sales	1530.00	Jan. 31	By Mistake in posting on Jan. 15	180.00

N.B.: *The manner in which rectification is made is of great importance to see that the books of account do not lose their credibility.*

The rectification of errors before preparation of final accounts should be discussed by first giving the correct entry, then comparing it with the actual entry and then seeing what is to be done.

Rectification should be discussed

a) firstly, without opening the suspense account; and
b) secondly, after opening the suspense account with the difference in the Trial Balance.

By means of the black-board, the effect of various types of errors should be brought home e.g.; the effect of a costing mistake in the Purchase Book, writing a wrong amount against a customer's name, entering a Purchase in the Sales Book etc.

The exercise in II above (Enclosure I) should be used for the purpose

Also a chart of errors should be developed on the Board with the help of the students.

(Encl: Copy of a Chart enclosed: Encl: II)

An agreed Trial Balance with obvious omissions and errors should be given and students should be asked to comment on it and then re-draw the Trial Balance.

(Enclosure III)

Rectification after the final accounts have been prepared *(to be discussed in Unit VI)*

NOTE: The purpose of these balances are to bring out the significance of debits and credits.

At this stage, the classification and categorisation of Accounts should be discussed, so that the students are able to identify the personal accounts, real accounts and the nominal accounts.

The advantages to be gained by putting together the accounts relating to the following should be brought out:

1. Capital Accounts
2. Real accounts (Assets)
3. Accounts relating to Credit customers
4. Accounts relating to Credit suppliers
5. Accounts relating to various lenders (Loan a/c etc.)
6. Accounts relating to Income and Revenue
7. Accounts relating to Costs. Expenses and Losses.

Evaluation of the Unit

The knowledge gained by the students should be tested through a number of exercises without the opening of a suspense account as well as when a suspense account has been opened.

Also, there should be exercises to see what the difference in the Trial Balance was and when, after rectification has been carried out, what balance is still left in the suspense account.

(Some sample exercises are in Enclosure IV)

VI References of the Unit

1. New Trends in Teaching Book-keeping and Accounting (Pages 33 to 39) Published by NCERT, New Delhi.
2. Teaching Book-keeping and Accounting (Chapter 8 & 9) by Musselman & Hanna
3. Double Entry Book Keeping by T.S. Grewal (for Charts & Problems)

ENCLOSURE :1

Solved Problem: On Errors and Their Rectification
Problem: (Adopted from: Double Entry Book keeping by T.S. Grewal)

F. Flame started business as a Coal Merchant on 1st October, 1984. At that date he possessed a Horse and a Cart valued at Rs. 1200/- and Cash at the Bank Rs. 5,500/-. He owed Rs. 1000/- to his brother, H. Flame for money lent.

Flame's transactions during October 1984, were as follows:

Date	*Particulars*	*Amount*
Oct.		
1.	Drew Cheque for use in Office	250.00
2.	Purchased 50 tons of best household Coal from B. Nautwel at Rs. 50/- per ton	
4.	Purchased account books and stationery, Cash	50.00
5.	Sold on Credit 16 cwt. to G. Norwood of Coal at Rs. 20/- per cwt.	
6.	Sold for Cash 5 cwt. of Coal at Rs. 20/- per cwt.	
7.	Paid wages Rs. 25/-	
11.	Purchased on Credit from B. Farnerl ½ ton of hay at Rs. 80/- per ton	
12.	Paid by Cheque to B. Nutwell the amount due less 5 p.c. cash discount.	
16.	G. Norwood paid his account by cheque less 2½ p.c. cash discount.	
17.	Paid rent out of Cash	100.00
19.	Purchased on credit from Cardiff Coal & Co., 20 tons steam coal Rs. 40 per ton	

22.	Sold on credit to Bracebridge Mills Ltd. 10 tons Steam coal at Rs. 60/- per ton.	
23.	Returned to B. Farner ½ ton of damaged hay	
26.	Cardiff Coal Co.,allowed Rs. 15/- for short weight in coal purchased from them.	
31.	Paid salaries out of bank	150.00
	Drew for domestic use, Cheque	200.00

PURCHASE BOOK

Date	*Particulars*	*LF*	*Details*	*Amount Rs.*
1984 Oct				
2	B. Nutwell 50 Tons best household coal at Rs. 50/- per ton			2,500
,,	B. Farner 1½ Tons of hay at Rs. 80/- per ton			120
19	Cardiff Coal Co. 20 Tons steam Coal at Rs. 40/- per ton			800
	Total purchases			3,520

SALES BOOK

Date	*Particulars*	*LF*	*Details*	*Amount Rs.*
1984 Oct.				
5	G. Norwood 16 cwt. of coal at Rs. 20/- per cwt.			320
22	Bracebridge Mills Ltd. 10 tons steam coal of Rs. 60/- per ton			600
	Total sales			920

SOLUTION

CASH BOOK OF F. FLAME

Dr. Cr.

Date	Particulars	LF	Discount	Cash	Bank	Date	Particulars	LF	Discount	Cash	Bank
1984 Oct.				Rs.	Rs.	1984 Oct				Rs.	Rs
1	The Capital A/c				,5,000	1	By Cash				250
1	To Bank			250			By Stationery A/c			50	
6	To sales A/c			100		8	By Wages A/c			25	
16	To G.Norwood		8		312	12	By N. Nutwell		125		
						17	By Rent A/c			100	
						31	By salaries A/c				150
						31	By Drawings				200
						31	By Balance c/d			175	2337
			8	350	5312				125	350	5312
1984 November 1.	To balance b/d			175	2337						

JOURNAL

Date	Particulars	LF	DR Amount	Amount
1984 Oct.			Rs.	Rs.
1	Horse & Cart a/c Dr.		1200	
	To Capital a/c			1200
22	B Farner Dr.		40	
	To Hay a/c (Being ½ ton of hay returned to B since damaged)			40
26	Cardiff Coal Co. Dr.		15	
	To Purchase a/c (Being the allowance made by them for short weight in respect of coal on Oct. 19)			15
			1255	1255

LEDGER

Capital Account

Dr. Cr.

Date	Particular	F	Amount	Date	Particulars	F	Amount
				1984			
				Oct. 1	By Cash/ Bank a/c		5500
					By Horse & Cart a/c		1200

Horse & Cart A/c

Date	Particular	F	Amount	Date	Particulars	F	Amount
1984							
Oct. 1	To Capital a/c		1200				

B. Nutwell

1984				1984			
Oct. 12	To Cash Book		2500	Oct. 2	By Purchase		2500

8. Farner

1984			1984		
Oct. 2	1o Hay a/c	40	Oct. 1	By Purchase	120
	Balance c/d	80			
		120			120
			Nov. 1	Bal. b/d	80

Cardiff Coal Co.

1984			1984		
Oct. 26	To purchase a/c	15	Oct. 19	By Purchase a/c	800
31	Balance a/c	785			800
		800			800
			Nov. 1	By Bal. b/d	785

G. Norword

1984			1984		
Oct. 16	To Cash book	312	Oct. 5	By Sales	320
	Balance c/d	8			
		320			320

Bracebridge Mills Ltd.

1984			1984		
Oct. 22	To Sales	600	Oct. 31	By Balance c/d	600

Purchase Account

1984			1984		
Oct. 31	To Purchase	3520	Oct. 26	By Cardiff Coal Co.	51

Sales Account

			1984		
			Oct. 26	By Cash Book	100
				By Sales	920

Hay Account

			1984		
			Oct. 23	By Farner	40

Stationery Account

1984					
Oct. 1	To Cash Book	50			

Wages Account

1984					
Oct. 1	To Cash Book	25			

Rent Account

1984					
Oct. 31	To Cash Book	100			

Salaries Account

1984					
Oct. 31	To Cash Book	150			

Drawings Account

1984					
Oct. 31	To C.B.	200			

Trial Balance
As on October 31, 1984

Particulars	*Dr. Amount*	*Cr. Amount*
	Rs.	Rs.
Capital Account		6,700
Horse & Cart a/c	1,200	
B. Farner		80
Cardiff Coal Co.		735
G. Narwood		8
Bracebride Mills Ltd.	600	

Purchase a/c	3,469	
Sales a/c		1,020
Hay a/c		40
Stationery a/c	150	
Wages a/c	25	
Rent a/c	100	
Salaries a/c	150	
Drawing a/c	200	
Cash in hand	175	
Cash in Bank	2,337	
	8,306	8,633

NOTE: The Tribal Balance given above does not agree. Let us see the errors which are responsible for this.

ERRORS:

a) The total of the Bank column in the Cash book is wrong. It should be Rs. 5,812 *and not* Rs. 5,312. The correction of the error will increase the bank balance to Rs. 2,837/-

b) The total of the purchase book is shown to be Rs. 3,500 whereas it should be Rs. 3,420. The effect of this error is that the debit to the Purchase A/c is Rs. 100/- in excess. The correction of this error will reduce the balance in the purchase book to Rs. 3,369.

NOTE: It should be noted that this error does not affect any of the accounts of the suppliers, say, Nutwell's account, since all such suppliers' accounts have been credited by their respective individual amounts.

c) The totals of the discount columns in the cash book have not been posted. The discount Account would be as follows:

Discount Account

Dr. Cr.

1984	Rs.	1984	Rs.
Oct. 31 To Cash Book	8	Oct. 31 By Cash Book	125

The discount account shows a credit balance of Rs. 117/- which will be written in the Trial Balance.

d) In the account of G. Norwood, the amount of the sale to him

has been credited instead of debited. Further, the amount received from him should have been credited to him and not debited. The credit should have been Rs. 320 and not Rs. 312.

Properly prepared, the account will appear as follows:

G. Norwood

Dr. | Cr.

1984	Rs.		Rs.
Oct. 2 To Sales	320	By Cash	312
		B Discount	8

There is no balance; the amount of Rs. 8/- appearing in the Trial Balance against G. Norwood will be omitted.

e) The rebate of Rs. 15/- has been properly debited to the account of the Cardiff Coal Co., but the amount has been credited to the Purchase Account as Rs. 51/- i.e. Rs. 36 in excess. The correction of this error will increase the balance in the Purchase Account to Rs. 3,405 [See (b) above]

After correction of all these errors, the Trial Balance will be as follows:

Trial Balance (Corrected for above mistakes)
As on 31st October, 1984

Particulars	*Dr. Amount*	*Cr. Amount*
	Rs.	Rs.
Capital Account		6,700
Horse & Cart Account	1,200	
B. Farner		80
Cardiff Coal Col.		785
G. Norwood (previously Rs. 8/- credit)		
Bracebridges Mills Ltd.	600	
Purchase A/c (previously Rs. 3,469)	3,405	
Sales Account		1,020
Hay Account		40
Stationery Account	50	

Wages Account	25	
Rent Account	.100	
Salaries Account	150	
Drawings Account	200	
Cash in Hand	175	
Cash in Bank	2,837	
Discount (previously nil)		117
	8,742	8,742

N.B. The Trial Balance now agrees

The Trial Balance now agrees :

However, the careful student will have noted that in addition to the errors mentioned above some other errors were also committed.

These are the following :

i) In the beginning we have entered Rs. 5,500/- in the Cash Book as the capital of F. Flame. But out of this Flame owed Rs. 1,000/-and this amount should therefore be credited to the loan a/c and not to the Capital of Flame. If this error is rectified, the capital account will be reduced to Rs. 5,700; in addition, there will be a loan a/c of Rs. 1,000/-

ii) Hay, Rs. 120/- has been purchased and has been entered in the purchase book. Since the firm does not deal in Hay, the amount should not have been entered in the purchase book, which means debit to the purchase a/c Rs. 120/- should be transferred to the Debit of Hay a/c by crediting purchase account. The proper entry in the beginning should have been:

		Rs.
Hay or (Housekeeper) A/c	Rs. 120	
To B. Farmer		120

NOTE: The fact that the Trial Balance agreed inspite of the two errors mentioned above shows that a Tribal Balance may agree even when there are some errors. In otherwords, the agreement of a Trial Balance is not a guarantee that there are no errors whatever. Some errors affect the Trial Balance if they are committed; the trial balance will not agree.

There are other errors which do not affect Trial Balance; it will agree inspite of them. *They are given in* the enclosed sheet *(Encl : II)*

Enclosure II

CHART ON TYPES OF ERRORS

Errors of Principle	*Errors of Ommission*	*Clercial Errors*	
(Treating a revenue expense as Capital expenditure or Vice-versa or treating the sale of a fixed asset as ordinary sale) Trial Balance will agree.	a) Omitting an entry completely from the subsidiary books. Trial Balance will agree	Errors of commission	Compensating Errors. Trial Balance will agree
	b) Omitting to Post the ledger a/c from the subsidiary books. Trial Balance will not agree		

Trial Balance will not agree:

1. Wrong casting of subsidiary books
2. Posting the wrong amount in the ledger
3. Posting an amount on the wrong side
4. Wrong balancing of an amount.

ERRORS OF COMMISSION

a) *Trial Balance will agree:*
Writing the wrong amount in the subsidiary books

b) *Trial Balance will not agree:*
Writing wrong amount on the correct side of an account

Enclosure III

An agreed Trial Balance with obvious errors omissions

The following is the idea of the book-keeper Mr. Wye of the Trial Balance.

Trial Balance of Mr. Wye as on March 31, 1984

Debit Balance	Rs.	*Credit Balance*	Rs.
Due from customers	15,000	Capital Account	35,000
Stock in Trade as on 31.3.84	20,000	Loan from Mr. X at 20%	25,000

		P.C. (taken on 1.10.83 interest paid till date	
Purchases	1,20,000		
Wages and Salaries	40,000	Paid in Advance to OYT	4,000
General Office Expenses	2,000	Security Deposit (with the Electricity Board)	1,000
Expenses still Payable	1,000	Due to suppliers	16,000
Cash on Hand	1,500	Sales	2,16,000
Cash at Bank	9,500	*Depreciation on:*	
Buildings	69,750	Building & Furniture	7,000
Furniture	15,000		
Sales Tax Collection	10,250		
	3,04,000		3,04,000

Stock in trade on April 1, 1983 was Rs. 16,000

SOLUTION

Trial Balance (corrected) of Mr. Wye as on 31st March, '84

Debit Balance	Rs.	*Credit Balance*	Rs.
Due from Customers	15,000	Capital Account	35,000
Stock in Trade (as on 1.4.83)	16,000	Loan taken (1.10.83)	25,000
Purchases	1,20,000	Expenses payable	1,000
Wages and Salaries	40,000	Due to suppliers	16,000
General Office Expenses	2,000	Sales	2,16,000
Interest on Loan (six months)	2,500	Sales Tax Collection	10,250
Security Deposit	1,000		
Cash	1,500		
Cash at Bank	9,500		
Furniture	15,000		
Buildings	69,750		
Advance payment to O.Y.T.	4,000		
Depreciation Buildings & Furniture	7,000		
	3,03,250		3,03,250

Comments:

1. The stock balance shown is at the end of the year. *the opening Balance is to be taken.*
2. Sales tax collection *is a liability* which should be shown at the credit side.
3. Adance payments to O.Y.T. are to be shown at the debit side.
4. Depreciation on Building and Furniture is to be shown on the debit side since it is an expense.
5. Interest on Loan (taken on 1.10.83) to be calculated for 6 months. (from 1.10.80 to 31.3.84).
6. Security Deposit is to be shown on the debit side.
7. Expenses payable to be shown on the Credit side, since it is a liability.

Enclosure-IV

Correct the following errors committed by G.Mulla:

I. a) The total of the Returns Outwards Book has been over-summed by Rs. 100/-

b) Goods retunred to P. Jacob & Co. Rs. 150/- have not been recorded in the Returns Outwards Book.

c) While posting the account of C. Muir & Bors. for Cash paid by them, Rs. 124/- the amount has been written as 241/-

d) Purchase of an office typewriter has been entered in the Purchases Day Book.

e) A Sporting gun purchased for Rs. 200 for G. Mulla's son has been debited to General Expenses Account.

f) A sale of Rs. 516/- to M/s Goel & Co. has been entered in the Sales Book as Rs. 561/-.

II. The book-keeper of a firm, having been unable to agree the Trial Balance, raised a Suspense Account in which he entered the amount by which he was out. The following errors were discovered:

a) Goods brought from a supplier amounting to Rs. 77/- had been posted to the credit of his account as Rs. 770/-.

b) A dishonoured Bill of Exchange receivable for Rs. 1,600 returned to the firms' bank had been credited to the Bank Account and debited to Bill Receivable Account. A cheque

was received later from the customer for Rs. 1,600 and credited to the customer.

c) An item of Rs. 80/- entered in the Sales Returns Book had been posted to the debit of the customer who entered the goods.

d) An amount of Rs. 800/- owing by a customer, had been omitted from the list of Sundry Debtors.

e) Discount amounting to Rs. 30 allowed to a customer, had been duly entered in his account, but not posted to the Discount Account.

Show the Suspense Account as raised by the book-keeper with the adjusting entries you would find necessary to make thereon.

III. The Trial Balance of a firm is out by Rs. 2,738 (Excess debit). The following errors were found subsequently to have been committed. Pass Journal entries to correct them.

a) An amount of Rs. 100/- was received from D. Das on 31st December, 1972, but had been entered in the Cash Book in 3rd January 1973.

b) The Returns Inwards Book from December had been cast Rs. 100/- short.

c) The purchase of an office table costing Rs. 300 had been passed through the Purchase Day Book.

d) Rs. 375 paid for wages to workmen for making showcases had been charged to Wages Account.

e) A purchase of Rs. 671 had been posted to the debit of the creditors account as Rs. 617. The creditor is P. Panna & Co.

f) A cheque for Rs. 200 received from P.C. Joshi has been dishonoured on maturity and was passed to the debit of Allowances Account.

g) Goods amounting to Rs. 100/- had been returned by a customer and were taken into stock, but no entry in respect thereof was made in the books.

h) Rs. 2,000 paid for the purchase of a motor cycle for Mr. Dutt (a partner) had been charged to Miscellaneous Expenses Account.

i) A sale of Rs. 200 to Singhi & Co. was credited to their account.

j) A sale of Rs. 1,000 has been passed through the purchases Day Book. The Customer's Account has, however, been correctly debited.

IV. The Trial Balance of Mitra & Co. is out by an excess credit of Rs. 382. The difference is placed in a Suspense Account and the following errors are subsequently detected. Rectify the errors by means of suitable journal entries and show the Suspense Account.

a) The total of the discount column on the debit side of the Cash Book Rs. 145 was not posted in the Ledger.

b) Cash, Rs. 325, received from Akbar against debt previously written off was credited to his account.

c) Sales of old office furniture Rs. 383 on credit to Nulook Furniture House was entered in the Sales Book.

d) While carrying forward the total of the purchases Returns Book from one page to another, the amount of Rs. 1,843 was written as Rs. 1,483.

e) Repairs to Office Buildings Rs. 259, were posted to the Office Building Account as Rs. 59.

f) A sale of Rs. 589 to Kulkarni was correctly entered to the Sales Book but was placed on the credit side of Kulkarni's Account as Rs. 953.

g) On receipt of Rs. 490 from Verma in settlement of account of Rs. 500, the discount was not entered in the discount column of the Cash Book. Verma's Account was, however, credited with Rs. 500/-

h) A sale of Rs. 300 to Sharma was entered in the Purchases Book: however, it was correctly debited to Sharma's Account.

What comments you have to offer?

UNIT-6

Final Accounts including work sheet with simple adjustment: Sole-trader and Partnership.

Introduction:

Having gone through the common sense approach to the profit concept and also the basic prineiples, it should be possible for a student to understand the meaning and significance of final accounts for any entity aiming at profit. Besides stressing the importance of the periodical financial statements, it may be made clear to the students that the proper understanding will enable then to gain a lot of self confidence and their proficiency will be like a take-off stage for a more advanced learning.

This unit is the logical culmination of the Accounting cycle starting from the chronological reording of transactions in the journal and its subsidiary books.

The accountant collects, records and classifies the basic data on events affecting an entity. But much depends on how he classifies and summarieses the data in a significant manner which results in the Trial Balance.

The preparation of the Final Statement of Account follows a trial balance which tallies for both debit and credit balances.

Objectives:

The objectives of this unit are stated below:

1. To enable the student to use the information in the Trial Balance for the preparation of

(i) The Trading Account so that the Gross Profit is revealed;
(ii) The profit and loss Account so that the net profit or loss is clearly arrived at; and
(iii) The Balance Sheet setting out the various assets, liabilities and the capital.

2. To introduce to the student the worksheet for the preparation of the final statements of accounts (The form will be given under Methodology).

3. To lead the student to ascertain the broad sources and application of funds.

Content:

1. Preparation of the Trading and Profit and Loss Account from a trial balance without adjustments.

2. Preparation of the financial statements on the basis of the trial balance.

3. The composition of the stream of funds that became available to the firm and the uses to which they were put.

Instructional aids:

1. Cyclostyled copy of an unclassified list of ledger balances only may be given to the student for classification and the subsequent preparation of a simple worksheet.

2. The concept of profit, gross profit, net profit and cost of goods sold may be shown in the form of equations prepared in flash cards. By means of appropriate changes in the equations the results may be varied and clear understanding on the part of the students will be ensured.

The students may also be asked to put themselves in the position of a trader, a small manufacturer or a professional and prepare a simple proforma trial balance without adjustments.

Methodology:

Before commening this unit it is better if the teacher follows the sequence given below:

1. Review briefly and rapidly the earlier steps in book-keeping or accounting cycle upto the trial balance stage.

2. Elicit from the students the purpose of keeping all the records over a period. At this stage the simple Trading and P & L Account and Balance Sheet may be prepared on the basis of a simple trial balance—at this point first a commonsense view of gross profit and net profit may be taken.

3. If the response from students is correct, the next question as to how the cycle may be terminated by means of transfer or closing entries and how the fresh set of accounts is opended for the next period may be explained.

4. The student may also be introduced to the need for correcting a few errors which may be discovered at a later date and which affect the period in question.

Rectification has been discussed in Unit V. If rectification is

carried out after preparation of the final accounts in the manner suggested in Unit V, it may mean that some of the expenses or incomes of the current year are affected, Example:

A purchase of Rs. 1,000 in December 1984 omitted from the books—accounts for 1984 closed and then in March 1985 the error is found. The usual way to rectify is:

Purchases Account Dr.	1000	
To Supplier		1000

5. The supplier is rightly credited but the debit to purchases Account in 1985 means increasing the purchases for 1985 and thus reducing the profit for 1985. This is not desirable since the function of the profit and loss Account is to reveal the profit or loss for the year (1985) it should not be vitiated by amounts relating to previous years. Hence the rectification involving nominal accounts of the previous year should be through P & L Adjustment Account. In the example given above:

Profit & Loss Adjustment A/c Dr.	1000	
To Supplier		1000

The balance in the P & L Adjustment Account should be transferred to the Capital Account (s) directly.

6. The students may be persuaded to identify the items of balances which remain after transfering all other items and enter into a discussion about the statement showing those balances and in the end, lead the discussion to the balance sheet and its form.

7. The students may be asked to assume themselves as the proprietors or the creditors or the lenders and so on and the best way they would like the assets and liabilities to be arranged may be elicited. *Thus importance of marshalling the balances in the B/S for the potential users of financial information may be impressed.*

8. The teacher may confront the students with a list of ledger account balances and elicit from them the destination of these balances. He/She may ask the following questions:

(a) What accounts would go to the Trading Account?

(b) What accounts would be written in the Work Sheet?

(c) What accounts would be shown on the assets & liabilities side of the Balance Sheet?

Students may be given practice, in such identification of accounts through a work sheet.

A detailed work sheet incorporating identification accounts and

all adjustments that may be needed at the close of an accounting period is appended unit 7.

9 Before dealing with the partnership final accounts a brief discussion on the formation of a partnership firm and the significance of the partnership deed and the Act is a must. A model deed may be shown (if possible) highlighting the relevant provisions for the purpose of the final accounts. A specimen of such a Deed of Agreement is contained in Enclosure I of this unit.

Methodology :

1. The students may be asked to prepare the flash cards for accounting equations as in the Unit I to recall the idea of Profit, Gross Profit and net profit.

2. A list of unclassified balances may be given for the preparation of a trial balances.

3. Each statement may be taken up for critical study in terms of the concepts involved.

4. Funds from Operations:

As an introduction only to profits resulting in funds the following exercise (or a similar one) may be worked with the help of discussion among the students.

The following was the Balance Sheet of Mr. Gopinath as at Dec. 31, 1983

Balance Sheet

Lisabilities	Rs.	Assets	Rs.
Sundry Creditors	37,000	Plant and Equipment	75,000
Loan	40,000	Stock in trade	41,000
Capital	92,000	Sundry Debtors	44,000
		Cash and Bank	9,000
	1,69,000		1,69,000

During 1984, he earned a profit of Rs. 31,000. He withdrew Rs. 1,500 p.m. for domestic expenses. The balances on 31.12.84 other than cash and Bank, were the following.—

	Rs
Loan	30,000
Sundry creditors	31,000
Plant & Equipment	96,000
Stock in trade	35,000
Sundry debtors	48,000

Mr. Gopinath had overdraft facilities at the Bank. Ascertain the Cash and Bank Balance as on Dec. 31, 1984.

Solution:

Since there is profit of Rs. 31,000, this fact alone (other things remaining the same) should result in additional funds. A brief example of, say, something purchased for Rs. 30 and sold for Rs. 40 will show that there is additional cash of Rs. 10/- After this, changes in assets and liabilities should be taken into account.

Let us proceed:

A. Receipts:

	Rs.
Opening balance cash (and Bank)	9,000
Cash from profits	31,000
Cash through reduction in stock	6,000
(goods to this extent sold)	46,000

B. Payments or Application of the funds:

	Rs.
Drawings (1500 x 12)	18,000
Repayment of loan (40,000-30,000)	10,000
Payment to Creditors (37,000-31,000)	6,000
Increase in Debtors, additional funds locked up. (48,000-44,000)	4,000
Plant & Equipment-addition (96,000-75,000)	21,000
	59,000
Overdraft (B-A) 59,000—46,000	13,000

The above statement can also be presented in the form of an 'account'.

Evaluation:

Evaluation in this unit is of utmost importance since the ability of the student to draw up the final statements of accounts is absolutely essential if he has to do any useful work. Therefore he should be thoroughly tested—not only in his capability to ascertain the profit or loss account but also to present the whole information (in the Profit & Loss Account and the Balance Sheet) in a neat accurate manner.

This should be accomplished by:

i. giving him an unclassified list of balances and asking him to draw up the Trial Balance and then to work on it.
ii. giving him an agreed but obviously wrong trial balance.
iii. using (ii), by requiring him to prepare the work sheet; and

iv. giving him a summary of transactions and then asking him to ascertain the missing information and then preparing the final statements of account

(Exercises of these types are available in plenty in text books but the teacher should suitably change the exercises so that ready solutions are not available).

References:

1. Advanced Accountancy ...By M.C. Shukla & T.S. Grewal
2. Advanced Accountancy ...By R.L. Gupta & M. Radhaswamy
3. Book-Keeping & Accounting ...By Herbert Freeman Marshall Hanna Gilbert Khan Mc Graw Hill Book Co. Inc.
4. Higher Science of Accountancy ...By A.N. Agarwal
5. Advanced Accountancy ...By R.R. Gupta
6. Advanced Accountancy ...By H. Chakravarthy

UNIT-7

Adjustments and Annual Financial Statements

Introduction:

Normally adjustments may not be required when all payments, receipts and claims of an enterprise are settled in cash during the course of an accounting period.

When, however, cash is not the basis of accounting and a business has to adopt an 'accounting period' for reporting, several claims, receipts, and payments which, though belonging to the said accounting period, will be found to be not settled. It is abvious that information about such 'not settled' (unsettled) items would be available only at the closing day of the accounting period. It is equally apparent that the true profit/loss and financial position of the enterprise will not get mirrored unless adjustments for 'unsettled' items are effected.

Objectives:

Students will be able to

i) enumerate the different types of adjustments made at the closing of the year.
ii) pass journal entries of various adjustments
iii) find the adjusted balances and show the same in Trading and P & L A/c and Balance Sheet
iv) Show the adjustments in the worksheet

Content:

1. Understanding of the following types of adjustments
   a) Adjustments relating to Depreciation
   b) Adjustments relating to Bad debts and Reserves for doubt ful debts and discounts.
   c) Adjustments of Accrued income and Accrued Expenses
   d) Adjustments of prepaid expenses and income received in advance
2. Passing the journal entires of the various adjustments
3. Preparation of the Final Accounts with given adjustments
4. Preparation of worksheets with the given adjustments

Instructional aids:

1. Trial Balance with various adjustments (An attempt should be made to expose the maximum adjustments to the students. An illustrative example of such a question is given in this unit).
2. Providing situations wherein the students should be expected to calculate the amount and nature of adjustment.

Examples:

a) Annual Fire insurance premium of a business premises is paid on 1st Jan. and Final accounts are prepared on 31st March each year. If the amount paid is Rs. 24,000, what adjustment will be made in the final accounts. Pass also the journal entry for this adjustment.

b) A trader pays Rs. 1500 as monthly rent for his shop. The landlord did not collect rent for February and March, 1984. If the Final Accounts are prepared on 31st March, every year, how will you make the adjustment of the unpaid rent? What journal entry will be made for this non-payment of rent?

Methodology

The following sequenc is suggested for effective teaching:

1. Students can prepare final accounts without adjustments. They may be asked to have a relook at the solution of a problem pertaining to final Accounts which they had already solved. Then they may be asked to refer to some items Interest, Insurance premium, Wages, Rent etc. Suppose the amount of wages entered in the Trading A/c. is Rs. 600. Pose a problem to them: Suppose at the close of the year, it was found that Rs. 100/- had become due but the same were not paid. How this non-payment of wages would affect the Gross Profit. After exposing some such problems and extracting the solution, you may give them the idea of the following types of adjustments:

(a) Adjustments relating to Depreciation

Students might have been exposed to the concept of depreciation when they learnt the preparation of journals. Now they are to be taught the treatment of depreciation on fixed assets like Machinery, Buildings, Furniture, Vehicles, etc. They have a clear conception of the treatment of depreciation on any item when depre-

ciation is given as part of the trial balance and when it is given as an adjustment outside the trial balance.

The teacher may stress clearly that when depreciation is shown in the Trial Balance it will be written on the debit side of the P&L a/c. only but when it is shown outside the Trial Balance it will be written both on the debit side of the P&L a/c and as a deduction from the concerned asset on the B/S. The various methods of charging depreciation may be recapitulated to enable students to calculate the amount of depreciation if so required.

(b) Adjustments relating to Bad Debts and Reserves for Doubtful Debts and Discount on Debtors.

These adjustments should be taught in the following sequence:

i) Bad Debts written off;
ii) Reserve for Bad and Doubtful Debts
iii) Reserve for discount on debotrs.

Students should be clearly taught why the above sequence is followed in effecting these adjustments. They should also be in a position to rationalize the above adjustments when any one or two of these are given. Further, they should also have the clear idea of dealing with these adjustments if the corresponding items are given inside the trial balance. In addition to all this, students should also be provided the practice to operating accounts like Reserve for Bad and Doubtful A/c and Reserve for Discount on Debtrors' A/c.

(c) Adjustment of Accrued Income and Accured Expenses

It is suggested that the meaning of accrued income and accrued expenses be clarified to the students synonyms of accrued income i.e. income receivable and of accrued expenses i.e. expenses outstnaing should be made clear. After the concepts of accrued income and accrued expenses have been explained, students may be asked to suggest examples of such income and expenses.

When the concepts of accrued income and expenses become clear, students should be in a position to suggest the recording of such incomes and expenses in P&L A/c and Balance Sheet. Teachers should ensure that students have understood the recording of accrued income and expenses. Further they should be able to understand the significance of any such item when it is given in the Trial Balance.

(d) *Adjustments for Prepaid expenses and income received in Advance*

Like the concepts of Accrued income and expenses, the meaning of Prepaid expenses and income received in advance should be discussed with the help of suitable examples. Recording of such prepaid expenses and income received in advance should also be discussed. Further, students should be in a position to record such items if the same are given in the trial balance.

To facilitate the smooth preparation of final accounts, students may be taught how to prepare the adjusted trial balance. If they have understood the significance of various types of adjustments, they will be in a position to understand its preparation easily. Illustration of the preparation of adjusted trial balance is given below: Prepare a Trial Balance as on 31st March, 1985 from the balances given below: The balancing figure is to be deemed as the Proprietor's Capital:

Machinery	Rs. 3,500
Debotrs	2,700
Drawings	900
Purchases	9,500
Creditors	1,400
Wages	5,000
Bank	1,500
Opening Stock in Trade	2,000
Rent	450
Sales	14,500
Sundry Expenses	200
Carriage	150

Prepare the adjusted Trial Balance after incorporating the following adjustments and give adjusting entries also.

a. Stock at the end	Rs. 600
b. Rent outstanding	50
c. Wages prepaid	200
d. Discount receivable	100
e. Depreciation on Machinery at 10% p.a.	

Adjusted Trial Balance as on 31st March, 1985

Particulars	Trial Balance		Adjustments		Adjusted Trial Balance	
	Dr. Rs.	Cr Rs.	Dr. Rs.	Cr. Rs	Dr. Rs.	Cr. Rs.
Machinery	3,500			350(t)	3,150	
Debtors	2,700				2,700	
Drawings	900				900	
Pruchases	9,500			600(a)	8,900	
Creditors		1,400				1,400
Wages	5,000			200(c)	4,800	
Bank	1,500				1,500	
Stock in Trade	2,000				2,000	
Rent	450		50(b)		500	
Sales		14,500				14,500
Sundry Expenses	200				200	
Carriage	150				150	100
Capital (Balance						
Discount figure)		10,000		100		10,000
Closing Stock			600(a)		600	
Rent outstanding				50(b)		50
Wages Prepaid			200(c)		200	
Discount Receivable			100(d)		100	
Depreciation			350(e)		350	
	25,900	25,900	1,300	1,300	· 26,050	26,050

Adjusting Entries

(a)	Closing Stock	........Dr	600	
	To Trading A/c			600
(b)	Rent A/c	........Dr	50	
	To Rent outstanding A/c			50
(c)	Prepaid wages A/c	........Dr	200	
	To wages A/c			200
(d)	Discount Receivable A/c	.... Dr	100	
	To Discount A/c			100
(e)	Depreciation A/c	.....Dr	350	
	To Machinery A/c.			350

Note: The teacher should take care of the narration and ensure that students write it properly.

3. Students will have to learn how a worksheet is prepared. They should also learn how the adjustments are included in the worksheet.

The following illustration is about the preparation of a worksheet containing some adjustments.

Illustration

Prepare a worksheet from the following balances and adjustments pertaining to a trader on 31st December, 1985:

	Rs.		*Rs.*
Cash	2,025	Land	8,000
Bank	11,000	Investments	1,000
Machinery	8,400	Sundry Creditors	12,300
Purchases	30,200	Capital	30,000
Sundry Debtors	12,600	Wages	5,000
Rent & Rates	1,500	Office Expenses	3,000
Misc. Income	450		
Sales	52,000		
Salaries	8,500		
Postage	500		
Interest on Investments	75		
Furniture	3,000		

Additional Information

a Cost of Goods sold	23,000
b. Salaries Outstanding	1,500
c. Accrued Interest	25
d. Depreciation on Machinery	1,000
e. Depreciation on Machinery	200
f. Rent and Rates prepaid	300

Accounting Worksheet of M/s Kumar & Bros. for the year ending 31st December, 1985.

	Trial Balance		*Adjustments*		*Adjusted Trial Balance*		*Trading A/c.*		*Profit & Loss Account*		*Balance Sheet*	
	Dr	*Cr.*	*Dr.*	*Cr*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Dr.*	*Cr.*	*Assets*	*Liabilities*
	Rs.	*Rs.*	*Rs. Rs.*		*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*
1. Cash	2,025				2,025						2,025	
2. Bank	11,100				11,100						11,100	
3. Machinery	8,400			1000(d)	7,400						7,400	
4. Purchase	30,200			23000(a)	7,200						7,200	
5. Sundry Debtors	12,600				12,600						12,600	
6 Rent & Rates	1,500			300(f)	1,200				1200			
7 Land	8,000				8,000						8,000	
8. Investments	1,000				1,600						1,600	
9. Sundry Creditors		12,300				12,300						12,300
10. Capital		30,000				30,000						30,000
11 Misc. Income		450				450				450		
12. Sales		52,000				52,000		52,000				
13. Salaries	8,500		1,500		10,000				10,000			
14. Postage	500				500				500			
15 Office	3,000				3,000				3,000			
16 Interests on												

Investments		75		25(c)		100				100		
17. Wages	5,000				2,500		5,000					
18. Furniture	3,000			200(e)	2,800					2,800		
Accured Interest			25		25						25	
Cost of Goods sold			23,000		23,000		23,000					
Outstanding salaries				1500(b)		1,500						1,500
Depreciation on Machinery			1,000		1,000				1,000			
Furniture			200		200				200			
Rent & Rates prepaid			300		300		24,000 G.P.		8,650 (N P.)	24,000 G.P.)	300	8,500 (N.P.)
	94,825	94,825	26,025	26,025	96,350	96,350	52,000	52,000	24,550	24,550	52,450	52,450

The teacher has to consider really as to when the worksheet should be introduced, whether in the very begining or either the student has acquired other skills to prepare the final accounts.

Sequence of Practicals

1. First few questions should pertain to the preparation of adjusted Trial Balance. It should be ascertained that the students acquire the competence of preparing the adjusted trial balance.
2. The next step to be exposed to the students is the method of preparing the worksheet by extending the adjusted trial balance. Students should acquire the skill of analysing the items and grouping the same under Trading A/c, Profit & Loss A/c and Balance Sheet. They should also be in a position to understand the given adjustments and give effect to them properly in Trading A/c, P&L A/c and Balance Sheet.
3. Observing the principle of proceeding from simple to complex' the teacher should first expose trial balances with simple adjustments and then the variety of adjustments should be increased. An attempt has been made to include a good number of adjustments in the following illustration:

Illustration

From the following Trial Balance of B. Singh, Prepare a Trading and Profit & Loss Account for the year ended 31st December, 1985 and Balance Sheet as on that date, after making necessary adjustments given below:—

Trial Balance

Dr. Balances		*Cr. Balances*	
B. Singh's Drawing A/c	6,000	B. Singh Capital A/c	1,04,000
Purchases	45,000	Return Outwards	500
Freehold Property	30,000	Bills Payable	2,500
Plant & Machinery	50,000	Sundry Creditors	20,000
Salaries	6,000	Provision for Doubtful Debts	400
Office expenses	1,225	Interest on Loan to S. Kumar	500
Furniture & Fixtures	2,500	Sales	1,05,500
Discounts Account	600		
Sundry Debtors	13,300		
Loan to S Kumar @ 10%	20,000		
Cash at Bank	13,300		

Stock (1st Jan. 1985)	17,500		
Wages	16,000		
Postage & Telegrams	700		
Insurance charges	800		
Gas & Fuel	1,350		
Bad Debts	300		
Freight & Duty	4,500		
Loose Tools	1,000		
Factory Lighting	800		
Cash in Hand	1,225		
Office Rent	1,300		
	2,33,400		2,33,400

Adjustment:

1. Stock on 31st December, 1985 was valued at Rs. 33,000.
2. Wages Rs. 800 and salaries Rs. 300 were outstanding.
3. Insurance prepaid was Rs. 200
4. A new machine was installed on 30th June, 1985 costing Rs. 7,000, but no record was made in the books and no payment was made for it. Wages Rs. 500 paid for erection, were debited to wages Account.
5. Loose Tools were valued at Rs. 800 on 31st December, 1985.
6. Depreciate Plant and Machinery by 10% p.a.; Furniture and Fixtures by 5% p.a. and Freehold Property by 2% p.a.
7. Of the Sundry Debtors Rs. 300 are bad and should be written off.
8. Maintain a provision of 5% on Sundry—Debtors for doubtful debts, and 2% for discount on Debtors and a Reserve of 2% for discount on Creditors.
9. The manager is entitled to a Commission of 3% of net profits before charging and 2% of net profits after charging such commission.
10. Accrued office expenses amount to Rs. 200.

Solution

B. Singh
Trading & Profit & Loss Account for the year ending December 31, 1985

Dr. **Cr.**

Particulars		*Amount Rs.*	*Particulars*		*Amount Rs.*
To Opening Stock		17,500	By Sales		1,05,500.00
,, Purchases	45,000				
Less Return	500	44,500	,, Closing Stock		33,000 00
,, Wages	16,000				
Add Outstanding	800				
	16,800				
Less for installation of machine	500	16,300			
,, Gas & Fuel		1,350			
,, Freight & Duty		4,500			
,, Factory Lighting		800			
,, Gross Profit C/d		53,550			
		1,33,500			1,38,500.00
To Salaries	6,000		By Gross Profit b/d		53,550.00
Add Outstanding	300	6,300	,, Interest on Loan		
Office Expenses	1,225		to S. Kumar	500	
Add Accrued	200	1,425	Add Accrued interest	1500	2,000.00
To Postage & Telegrams		700	,, Reserve for discount on Creditors		400.00
To Insurance charges	800				
Less prepaid	200	600			
To Office rent		1.300			
,, Provision for Doubtful Debts Required	650				
Add Bad Debts	300				
	950				
Less old reserve	400	550			

Provision for discount on Debtors required	247			
Add Discounts allowed	600	847		
To Depreciation Plant & Machinery	5375			
Furniture & fixtures	125			
Freehold Property	600			
Loose Tools	200	6300		
Commission to Manager Before Charging	1137.85			
After ,,	721.35	1859.20		
Net Profit transferred to Capital A/c.		36068.80		
		55950.00		55950.00

Balance Sheet of B. Singh as on 31st December, 1985

Liabilities		*Amount* Rs.	*Assets*		*Amount* Rs.
Sundry Creditors	20,000		**Current Assets**		
Less Discount Reserve	400	19,600	Cash in hand		1,225
			Cash at Bank		13,300
Bills Payable		2,500	Sundry Debtors	13,300	
Creditors for Machinery		7000	Less Provision for Doubt ful debts	650	
Outstanding Expenses					
Wages		800			
Salaries		300		12,650	
			Less provision for discount	246	12,403.00
Commission due to Manager		1,859.20			

Office Expenses		200.00			
			Loan to		
Capital Balance	1,04,000.00		S. Kumar	20,000	
on 1st Jan. 1985			@ 10%		
Add Profit	36,068.80		Int. outstanding	1,500	21,500
	1,40,068.80				
Less Drawings	6,000.00	34,068.80			
			Closing Stock		33,000
			Insurance prepaid		200
			Fixed Assets		
			Freehold Property	30,000	
			Less Depreciation	2,600	
					29,400
			Plant &		
			Machinery	50,000	
			Addition during		
			the year	7,500	
			Less Depreciation	5,375	
					52,125
			Loose Tools	1,000	
			Less Depreciation	200	
					8,000
		1,66,328.00			1,66,328.00

Working Notes

i) *Bad Debts Provision*

Now Reserve for Doubtful debts	Rs. 650
Add Bad Debts	300
	950
Less old Provision	400
	550

ii) *Discount Provision*

Sundry Debtros	13,300
Less B ad Debts written off	300
	13,000
Less New Reserve	650
	12,350

Provision for Discount 2% on Rs. 1235. 247

iii) *Depreciation on Machinery*

	10% on Rs. 50,000	5,000
	10% on (7000+500)	375
		5,375

iv) *Commission to Manager*

(a) Commission net Profit
before charging such commission

$$\frac{3}{100} \times 37028 = 1137.85$$

(b) Commission on net profit
after charging such commission:

Formula: $\dfrac{\text{Percentage of Commission}}{100+\text{Percentage of Commission}} \times \text{Net Profit}$

$$= \frac{2}{102} \times 36790.15 = 721.35$$

Total Commission Payable = 1137 85 + 721.35 = 1859.20

Evaluation

Student's depth of the knowledge in Adjustment entires should be measured by relevant questions of theory and practice. The following theory questions will test the basic knowledge acquired in this topic:

Q. 1. What is an adjustment entry?

Q. 2. Why do we pass adjustment entries?

Q. 3. What are the different types of adjustment entries? Give two examples of each type.

Q. 4. Distinguish between
  (a) Prepaid and outstanding Expenses
  (b) Accrued expenses and Accrued Income

Teachers should test students' knowledge of practical questions by framing questions of the following type:

1. A Businessman took an insurance policy against his Business Premises on Ist Dec., 1984 by paying a premium of Rs. 1200 per annum. He prepares his final accounts on 31st March, every year. What adjusting entry will he make with regard to premium payaments on 31st March, 1985 and of what amount? How will

he show the effect of this adjustment in his final accounts?

2. A trader prepares his final accounts on 31st December every year. In a particular year, he could not pay salary to an office assistant for the month of December amounting Rs. 600/- what adjustting entry will be made for this non-payment of salary? How will this be adjusted in the final accounts?
3. What adjusting entries are passed for the following:
   (a) Accrued expenses
   (b) accrued income
   (c) depreciation on furniture
   (d) Reserve for Bad & Doubtful Debts.
4. A trial balance contains on its debit side—Bad Debts Rs. 400, Debtors Rs. 16,000 and on its Credit side—Reserve for Bad and Doubtful Debts Rs. 600.

   The following additional information is also given
   (a) Create 5% reserve for Bad and Doubtful Debts
   (b) Create 2½% reserve for discount on Debtors.

   How this will be adjusted in the final accounts.

Teacher should select suitable questions of final accounts with adjustments of different kind and give the same to his students to solve. He should frame his own questions where in he should try to incorporate variety of adjustments.

UNIT-8

Financial Accounting Principles — Accounting Policies — Approaches to Valuation of Assets

1. Introduction

Financial Accounting is mainly concerned with the preparation of two financial statements namely profit and Loss Account and Balance sheet. These statements are periodically prepared to report to the parties interested in the financial performance of a business unit, like shareholders, creditors, financial institutions, and Government. Shareholders wish to know periodically whether their capital has been intact, and whether the business unit is making use of it in efficent and effective way. Creditors, similarly want to know the financial performance of a business unit, so that they can take such decisions regarding extending further credit. The interest of the financial institutions such as commercial banks, co-operative financial institutions, is similar to that of creditors. Government departments are insterested to know whether a business unit has made some profit, if so how much, to decide tax-liabilaty. Thus, to serve the purposes of these parties, financial statements are prepared.

The profit and loss account is a flow-statement in the sense, that all the transactions that happened between *two points of time,* are summarised, and the net results shown. The main objective behind its preparation is to ascertain whether business unit has resulted in profit or in loss. On the otherhand, the Balance sheet is a position statement which depicts the financial status at a particular *point of time* in terms of assets of various kinds held by a business unit and the liabilities it has created in acquiring these assets. But the financial status as it stands at a particular point of time, say on 31.12.1984, will only be portrayed by the Balance sheet. The profit and loss account explains the changes in the surplus account/ retained earnings account or capital account that appears on the Balance sheet of a Business unit. The net profit will add to the surplus account/ retained earnings Account,/capital account and the net loss will reduce this account.

2. Objectives

The financial statements—profit and loss Account, and Balance sheet, are periodically prepared in confirmity with the principles considered to be thc 'canons' of financial Accouting. Though, in the earlier units, the student is exposed to the mechanics of Financial Accounting, he is not so far posed with the question of 'why' Financial Accounts are structured the way taught in the earlier units. So, it is the objective of this unit to expose the student of the 'rationale' behind the mechanics of Financial Accounting. It is expected that at the end of the unit the student would be able to:

— Have knowledge of *Generally Accepted Financial Accounting principles* that underlie the preparation of Financial statement.
— Interpret the principles, and able to understand how these principles form as guideposts to the preparation of Financial Statements.
— Apply the principles to the specific situations as and when they arise in the preparation of Financial statements.
— Evaluate the role of Financial Accounting in the present-day socio-economic context.
— Understand the direction, in which financial Accounting is moving as a discipline
— Perceive the challanges posed by the Financial Accounts.
— Know the broader limitations of financial accounting.

3. Generally Accepted Financial Accounting/Principles

The student is taught about the mechanics of Financial Accounts that lead ultimately to the preparation of Financial Statements. However the student is neither taught nor made to think as to why he could follow the prescribed accounting procedure. Financial Accounting has its own logic and reasoning to which the student should be exposed. As already pointed out, these are the principles to be complied with while preparing Financial Statements. These principles have been developed in a 'piece-meal' fashion. When accountants were faced with problem of recording certain items in the Financial statements, they used to discuss the pros and cons of one method as against another method. When a particular method was largely agreed upon and followed by the majority of practising accountants, that has become a principle, so far that problem is concerned. Similarly some principles are also distilled from the judgements of jurists.

In a business, the stream of transactions is continuous from day to day and from year to year. But in order to provide the management and other parties interested in a business unit with information regarding the results of operation and the status of investment, the Accountant makes the assumption that the continuity is broken at a certain point of time say on the last day of the financial year. Prof. Myers says that in order to facilitate the process of breaking the record into time segments and allocating revenue and costs to them, Income statement (Profit & Loss Account) and showing cost residue in Balance sheet, a series of conventional procedures have been devised. They are popularly called Generally Accepted Financial Accounting principles, for they are largely followed by the practicing Accountants. In other words, they are the guideposts in structuring Financial statements.

3.2 *What are those principles*

The following accounting principles are generally agreed to be the guideposts to financial accounting procedures and reports. These guideposts are the 'basics' to understand the statements, leave alone to interpret them.

1. The Business Entity concept/principle
2. The Monetary concept/principle
3. The cost concept/principle
4. The going concern concept/principle
5. The Accounting period concept/principle
6. The Dual concept/principle
7. The Matching concept/principle
8. The Realisation concept/principle
9. The cost expiration concept/principle
10. The Materiality concept/principle
11. The consistency concept/principle
12. The conservation concept/principle

1. Business Entity concept:

Regardless of the form of organisation, a business unit is a separate and distinct entity from that of its owners or those who associate with it, viz., employees and managers. This idea has been conceptualised as Business Entity concept. Since the basic objective of Financial Accounting is to measure business income (profit), business entity concept ensures that all the transactions entered into by

parties closely associated with the business, such as, owners, employees, and manager are properly recorded and accounted for.

Now, having explained the concept/ principle, the student must be made aware of its implication in the process of preparing financial statement. For example, when capital is brought into business, the capital account is opened and credited with the amount, and the corresponding debit entry is made in the Cash Account. When the owner withdraws money/ materials, his Drawings Account is debited and correspondinly cash account or purchases account is credited. These accounting operations explain the business entity concept.

2. Monetary concept

The Accountant records only those transactions that can be expressed in money. Feelings and Frustrations in business, for example, are not reflected in financial statements, as they can not be reflected in monetary terms. Similarly, some assets, skills that cannot be expressed in monetary terms, are not reflected in Financial Statements. However, the advantage of expressing a common denominator by means of which beterogenous facts about business can be expressed in terms of numbers that can be added or subtracted. The implication of this principle is that while recording transactions, we would record only those transactions that can be expressed in monetary terms. The transactons that taken place between two individuals in a business and can/ not be expressed in monetary term lie outside the purview of financial accountings.

3. Cost concept:

In financial Accounting, cost represents money spent to acquire an asset. But the cost concept does not mean that the asset would be shown at the cost price year after year for an indefinite period. The assets recorded at cost price at the time of purchase, are systematically reduced by the process called depreciation.

Cost concept tells clearly that only historical costs are recorded and all further operations are made upon these costs only. That's why assets are shown at historical costs and depreciation charges are calculated on historical costs only.

The cost concept also implies that if nothing is paid for acquiring an asset, then it would not be shown in the books of accounts. Thus the knowledge and skill built up as the business operates, the teamwork that grows within the organisation, a favourable location

that becomes of increasing importance as time passes, a good reputation with customers do not appear as an asset in the accounts of the company. Similarly Financial Accounts do not reflect the loss of a key executive.

4. Going concern concept:

The Going concern concept assumes the continuity of the business for an indefinitely long period. This concept, though looks to be simple, has got ample bearing on the way assets are valued and depreciated, and shown in the Balance Sheet. For example, if we assume that the business unit would be wound up after one year, all assets would have to be exhibited at liquidation values i.e., (the values at which assets can be liquidated and cash can be realised). So, the going concern concept explains why we adopt historical cost for exhibiting assets and calculating depreciation on assets.

5. Accounting period:

As mentioned earlier, inorder to provide the management and other parties interested in the business with the results of the business and the status of investment, the Accountant breaks the flow of transactions for a period called the accounting period which may be one year consisting of 12 months or ½ year or quarter of a year. This problem would not have come up, if the Business is say for one clear year. All expenses are subtracted from revenue, and business income is found out.

The accounting period concept is implemented through a number of conventions or other principles like matching concept and the realisation concept. Infact, It is the accounting period that provides the guidance for making a number of adjustments in preparing Financial Statements. For example expenses and revenue are recognised only with the help of accounting period; Only expenses and Revenue relevant for an accounting period should be considered for determing business income in the profit and loss account. For example, some expenses are paid, say insurance for the next accounting period, they should not be considered for determing business income of the year in which it has been paid. A number of examples can be quoted to throw light upon the importance of accounting period.

6. Dual concept:

The dual concept or double entry concept assumes that every transation has two way effect—debit & credit, and the same must be shown in the books of accounts. For example, when an asset is aequired through credit purchase, the transaction has two fold effect—debit the asset account and credit the supplier's account. In the balance sheet the same transation will appear as an item of asset and on the liability side as creditor. This explains why the two sides of a balance sheet—liability and asset balance.

7. Matching concept:

Though the flow of transactions is continuous, its continuity is broken into several time segments called accounting periods, to determine its periodic result—profit or loss. The matching concept tells that the stream of transactions 'relevant' for an accounting period is to be recognised and matched against the stream of revenue relevant for that accounting period, to ascertain whether the business has made some profit or resulted in loss.

8. Realisation concept:

The realisation concept guides the Accountant in recognising revenue for an accounting period. Revenue is the monetary expression of the aggregate or products or services transfered by an entrepreneur to its customers during a period of time, For purposes of Financial Accounting, revenue is usually considered as having been realised, when a sale has been made, the invoice prepared and recorded in the accounting records.

For example, suppose a business unit has made sales during one accounting pariod 1983, for which cash has been realised in the following accounting period, i.e., 1984. Should we consider the sale to have been made in the first accounting period 1983 or in 1984. As per the realisation concept, sales are said to have been made and revenue realised in the accounting period when sales were made regardless of the fact when cash realised.

1983	1984
Sales made Rs. 1,00,000	Cash of Rs. 1,00,000 realised.

Sales are said to have been and revenue is said to be realised in the

accounting period 1983, and the same may be credited to 1984 Profit and Loss Account for the year ending.

9. Cost expiration concept:

While the Accountant is guided by the Realisation concept in recognising Revenue for an accounting period, the cost expiration concept guides him in recognishing the costs relevant for the accounting period to match them against Revenue in the profit and loss account. Costs are incurred for the purpose of earning revenue and deducted from the Revenue to find out the result of a business unit's operations.

Expenditure may be broadly divided into Revenue expenditure and capital expenditure. Revenue expenditure represents money spent on acquiring goods and services which produce Revenue in the current accounting period. They include materials, wages, and salaries and a host of other charges which are spent or used in the current accounting period only. Whereas some money is always spent in acquiring goods and services which are likely to benefit the business in producing revenue not only in the current accounting period but also in/subsequent accounting periods. For example, money spent on a machine say Rs. 10,000. It is expected to service for 10 years. The amount of Rs. 10,000 is spread on 10 accounting periods. In the first accounting period Rs. 1000/- is charged to to profit & loss account under depreciation and the remaining Rs. 9,000 is maintained as an asset in the Balance sheet. Now the part of the asset Rs. 1000/- released to profit and loss account is revenue expenditure, and the remaining cost residue is shown as an asset. So the expenditure that are expired are released into profit and loss account, are also called expenses. A number of other examples can also be given. The student should understand that in preparing profit and loss account, we take all expenses paid or to be paid, but must be relevant for the period. Similarly all Revenue realised in cash or not, but must be relevant for the period. This is what is called accrual accounting.

10. Concept of Materiality

In law there is a doctrine called *'minimis non curat lex'* which means that the court will not consider trivial matters. Similarly accounting ignores the record of such events which are so insignifi-

cant that the work of recording them is unjustified looking to its usefulness. Consider the case of a pencil purchased by a corporation. Strictly speaking, it is an asset and should be shown in the Balance sheet. Everytime when the asset (pencil) is used up the owner's equity (capital) is accordinly reduced. So the 'expired cost' of the asset (pencil) is to be ascertained and duly accounted for so that the records could correctly show the fractional amount of the remaining asset. However, if this procedure is continued till the pencil is exhausted, the cost of computation and recording would be gigantic as compared to their usefulness. Noted, materials like stationary, pencil which do not call for elaborate accounting, are deemed to have been used up when they are issued. At this point, the Teacher should make it clear that no objective criterion exists for separating a material item from a non-material one. The cconomic significance of an item is a relative concept than an absolute concept. Moreover, materiality is not restricted merely to amount. It also extends to information. It is again relative in nature.

11. Concept of Consistency

The concept of consistency requires that accounting procedures and policies once adopted should be followed year after year indefinitely for a high degree of comparability of any concern's reported statements. At this stage, it is desirable to state to the student what is meant by an accounting policy. The accounting policies refer to the specific accounting principles already discussed and the methods of applying these principles adopted by the enterprise in the preparation and presentation of financial statements. The following are examples of the areas in which different accounting may be adopted by different enterprises.

— Methods of depreciation
— Valuation of inventories
— Deferred Revenue expenditure etc.

For example, in valuation of inventory, an assets (working) cost or Market value whichever is lower is followed. In order to ascertain cost, the same accounting policy of the business be adopted to ensure consistency. Any change in the method, say switchover to FIFO, would distort earning.

For example, if the enterprise adopts LIFO method of valuation of inventories, it should not switch over to FIFO method.

12. Concept of Conservation

The concept of conservation is based upon the belief that an error of understatement is likely to be less serious than that of an error of overstatement. Over valuation inflates reported resources as also income, and business is adversely affected if the market later declines. The recorded value of resources then exceed their real worth. This practice, if persisted leads to insolvency and forced liquidation of the business. Under valuation however does not threaten the very existence of the concern although it has other ill-effects-concealment of resources, malpractices by management, etc. The valuation of inventory at cost or market value, whichever is less is a faithfull application of the principle not to reckon with anticipated profits but to provide for all possible losses. The point can be highlighted further by giving some more examples. For examples, when there are losses, they are closed by putting into the debit side of profit and loss account, which means, they are charged against current profits. Similarly if there are likelyhood of some losses to arise in the future, provision would be made against current revenue. Say when reserve for Bad and doubtful debts are provided against current revenue, the accountant is strictly guided by the concept of conservation. A number of other examples can also be quoted, and explained.

3.3. Adopting Generally Accepted Financial Accounting Principles

The Accountant, in preparing Financial Statements, puts in the following functional efforts:

1. Data collection (recording transactions, posting them into ledger, and taking a trial balance out of it and preparing supporting accounting information)
2. By applying the principle discussed above, the data collected is translated into financial statements.

Of course, even while recording data some principles are followed. However, a great number of principles are necessarily to be followed at the second step. It is at this stage, the Accountant is given discretion in applying the principles, but he should ensure that he has applied them in such a way that the financial statements exhibit a true and fair view. The Institute of Chartered Accountants of India has appointed a body called Accounting standards Board, which has developed some standards relating to General Accounting Policies

and valuation of inventory. It insists that if a business does not follow 1) Accrual principle 2) Consistency principle, the business should report the same in the financial statement. Similarly if it is not a going-conern, the same should be reported in the financial statements.

3.4 The Problem of Generally Accepted Financial Accounting Principles

One problem generally associated with the principles is concerned with the application of these principles, the choice of which is in the hands of the Accountant. For instance, in valuing inventory, the accountant may ascertain the cost following one of several methods like FIFO, LIFO etc. Viewed in this context, it is felt that greater uniformity is desirable. It is the duty of the accountant to see that the financial facts about a business are presented in the fairest manner. This is the reason for the discretion given to the Accountant. For example, take the case of the depreciation of a machine. If in the opinion of the accountant, the useful life of the machine is dependent upon the number of hours it is in operation, he will use machine-hour method of depreciation. But if it is a machine not affected by usage, he will probably use the straight line method.

3.5 Conclusion

A principle to be generally acceptable has to satisfy the following criteria—Relevancy, objectivity and Feasibility. Any accounting principle is relevant if it results in information useful for the parties interested in business. It is objective if it does not leave much scope for personal bias. It is feasible if it can be implemented.

Against the above criteria, some of the generally accepted accounting principles we have observed, have become obsolete, hence they are under severe attack. For example, in preparing financial statements, it is assumed that the monetary unit is stable which is not true in the real world. Similarly the cost is assumed to be the historical cost only. This concept has again become irrelevant. Therefore, the current problem with respect to generally accepted financial accounting principles, is not so much concerned with the discretion given to the Accountant, but with broad generl principles.

3.6 Limitations of Financial Statements.

The Financial Statements prepared suffer from certain limita-

tions some of which have been dealt with above. Further, the Financial Statements are under attack in the present day socio-economic set up mainly on two counts:

— They do not reflect the most important asset in an enterprise namely human assets.
— They do reflect only economic activities and not social activities of an enterprise.

As such, the Accountant is faced with the problem of rectifying the above criticisms levelled against Financial Accounting. To the first critism, the Accountant is developing human Asset Accounting. To the second, the Accountant is developing social Accounting. Accounting is undergoing metamorphosis, and as such, a lot of changes are in the offing.

4. Instructional Aids

1. A handout may be prepared detailing the Generally Accepted Financial Accounting Principles, and distributed at the end of the period.
2. 'Flow-charts' may be developed on the blackboard simultaneously explaining some concepts.
3. Problems calling for the interpretation and application of principles may be set and distributed to the students.
4. Blackboard and chalk should extensively be used explaining the principles.

5. Methodology

It is suggested that the Teacher may deliver a brief talk introducing the student to the topic, spelling out learning outcomes and then explaining the Generally Accepted Financial Accounting principles. It may be followed by posing questions to the student. At a later stage, the students may be given some statements excerpeted from the topic and encouraged to discuss. As an example, the students may be given the following statement and asked to discuss and the Teacher has to guide their discussion. Whenever the students are deviating from the point of focus, the Teacher has to steer them properly and bring them back to the track.

Example: 'Minimis Non curat Lex'—discuss.

At this stage the student may have developed knowledge, and understanding of generally accepted financial Accounting principles,

and ready for interpretation and application. The Teacher then, may develop some problems that call for the interpretation and application of principles, and the students may be asked to solve them. Thus, the teacher is suggested the following methods of Teaching the unit:

1. Lecture Method (Stage One)
2. Question and answer method (Stage two)
3. Statement discussion method (Stage three)
4. Case method (Stage four)

6. Evaluation

The Teacher may evaluate the performance of the student by testing his *knowledge, understanding* and *Application* through objective type questions. These objective type question may be:

1. Multiple choice questions
2. True and False questions
3. Matching type questions.

1. Multiple choice question

Example: Realisation concept tells that sales are said to be realised:

A) At the point of sales
B) At the point of realisation
C) At the point of accepting the order

2. True and False Question

Example: The consistency principle explains that overstatement is always better than understatement.

True/False.

3. *Matching type*

Example: *Match the following*

1. identification of revenue	1. The Dual concept
2. identification of costs	2. going concern principle
3. valuation of inventory	3. Cost expiration concept.
	4. Materiality Principle
	5. Conservation principle
	6. realisation concept

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Part B Applications

UNIT-9

Consignments

1. Introduction

Large-scale production and wide and scattered markets make it necessary to sell through representatives called agents. Goods sent to representatives for disposal to consumers and users are recognised as being on 'consignment'.

It is easy to see that the channel along which merchandise is moved from the manufacturer to the agent is different from a 'sale' The contractual relationship is also that of 'principle' and 'agent' as against that of 'seller' and 'buyer'.

Accounting procedures for consignment transactions have to provide for these basic differences. This unit explains accounting treatment of consignments and the various ways of determining profit/loss on such consignments.

2. Objectives

After exposure to this unit, students should be able to

(a) differentiate between a consignment and a sale.
(b) prepare books of accounts of both the consignor and the consignee
(c) determine consignment profit/loss
(d) deal with valuation of closing stock

3. Contents:

1. Preparation of Books of Accounts (Journal & Ledger) of the Consignor.
2. Preparation of Books of Accounts (Journal & Ledger) of the Consignee.
3. Valuation of Stock on hand with the consignee.
4. Ascertainment of profit/loss on Consignment.

4. Instructional Aids

1. Teachers Guide

2. Text materials
3. Problem materials
4. Complete Practice set
5. Photo-stat copies of Invoices, Accounts sales, proforma invoices.

5. Methodology

The teacher may introduce the difference between a 'consignment' and a 'sale' by asking from the students if the following cases are example of 'consignment' or 'sale'.

(a) X Co. Ltd. the manufacturers of leather brief-cases despatched 1000 pieces to Royal Club who have to distribute the brief cases to their members.

(b) HMT watch Co. sent a box containing to M/s. Ramesh Watch Co. who deal in watches of HMT, Allwyn, Siko, Reico and several other makers.

(c) Jayana Traders are representing Larsen & Toubro at Bombay for the products of the latter. L&T send a shipment valued at Rs. 2,00,000 to Yayana Traders for further sale.

(d) M/s Reddy & Co., sell goods for Rao Srinivas Ltd. and also collect their book debts. Rao Srinivas Ltd., send goods worth Rs. 8,00,000 to M/s. Ready & Co. for sale.

The teacher may, then, proceed to underline the characteristics of a 'consignment' transaction. Accounting implications may also be emphasized simultaneously. In particular, it may be broadly clarified that a 'consignment' involves an application of the basic principles of accounting based on the fact that a consignment is of the nature of a 'sale in the pipeline'.

The consignment Accounting features may be illustrated with the help of a comprehensive example.

Example:

Mr. Barua of Gauhati consigns goods to Mr. Ranade of Pune for a sale at invoice price or above. Mr. Ranade is entitled to a commission of 5% on invoice price and 25% of any surplus price realized. Mr. Barua draws on Mr. Ranade at 90 days sight for 80% of the invoice price and upon sale Mr. Ranade remits the balance of proceeds after deducting his commission by sight draft.

Goods supplied by Barua to Ranade in the year 1984 cost Barua Rs. 10,450 including freight and were invoiced at Rs. 14,200.

Sales made by Ranade were Rs. 13,380 and unsold goods in his hands as on 31st December, 1984 represented an invoice value of Rs. 3,460 (original cost Rs. 2,370 plus freight Rs. 240). Sight draft actually received by Barua from Ranade upto December 1984 were Rs. 3,140; others were in transit.

Prepare accounts in Barua's books of these transactions and show (by ledger accounts) the manner in which the books would be closed at 31st December, 1984.

Consignment to Ranade A/c

Dr. **Cr.**

Date	*Parriculars*	*F*	*Amount Rs.*	*Date*	*Particulars*	*F*	*Amount Rs.*
1984 Dec. 31	To Goods (including freight)		10,450	1984 Dec 31	By Sales		13,380
					,, Stock (including freight		2,610
	,, Ranade Commission 5% on Rs. 10,740		537				
	25% on Rs. 2,640		660				
	Profit & Loss A/c		4,343				
			Rs. 15,990				Rs. 15,990

Ranade (Consignee)

Dr. **Cr.**

1984 Dec. 31	To Consignment to Ranade		13,380	1984 Dec. 31	By bills		11,360
					Commission		1,197
	Balance C/c		2,768		Bills		3,140
					Bills in transit		451
			16,148				16,148

Bills in Transit

Dr. **Cr.**

Date	*Particulars*	*F*	*Amount Rs.*	*Date*	*Particulars*	*F*	*Amount Rs.*
1984 Dec. 31	To Ranade (Consignee)		451				

Proof of Ranade's Account

Ranade according to the agreement is to account to Baruwa for the profit on the goods he sells less commission.

		Rs.	Rs.
(i)	Sales		13,380

Less invoice price of goods consigned		14,200	
Less Invoice price of goods on hand		3,460	10,740
	Profit		2,640
The Commission there on			
5% of Rs 10,740 (Invoice price)		537	
25% of Rs. 2,640 (Profit as above)		660	1,197
Hencee Ranade owes for the difference			Rs. 1,443

When the goods were sent to Ranade he paid Barua for 4/5 th of the value of the whole consignment of Rs. 14,200, his acceptance thereare being

4/5 x Rs. 14,200 = 11,360.

of the whole consignment Rs. 10,740 worth has been sold by Ranade so that subject to his commission he must account to Barua for the remaining 1/5th of his invoice price of the goods sold. It is clear that he has paid for 4/5th of the goods still unsold but this is ignored for the present.

Consequently, Ranade must account to Barua for 1/5 x 10,470 which is Rs. 2,148 added to the net profit of Rs. 1,443 as shown in the above statement. Ranade is thus indebted to Barua for

(a)	Net Profit	1,443	
(b)	Balance of invoice price of the goods sold	2,148	3,591
	Against which he has already remitted		3,140
	Therefore the Drafts in transit to clear are		Rs. 451

When Ranade has received credit for his remittances and his commission, his account it clear so far as the goods sold are concerned, but he has paid not only for the goods but for 4/5th of the goods unsold, as he accepted a bill at the outset for 4/5th of the invoice price of the whole consignment. Such unsold goods are

Invoice price of whole consignment	14,200
Less Invoice price of goods sold	10,740
Remaining goods	Rs. 3,460
Ranade has paid for 4/5th thereof	2,768

The latter figure is the amount standing to the credit of Ranade's account.

The proof becomes simple if the student will imagine that two separate consignments were made, the first representing the goods sold, the second remaining goods unsold.

Consignments	*Invoice price*	*Paid for by Ranade*	*Unpaid for by Ranade*
1st Consignment	10,740	8,592	2148

2nd Consignment		3,460	2,768	692
	Rs.	14,200	11,360	2840

The ledger Account in Barua's books will be

Dr. **Ranade** Cr.

Date	*Particular*	*F*	*Ist Consignment Rs.*	*2nd Consignment Rs.*	*Date*	*Particulars*	*Ist Consignment Rs.*	*2nd Consignment Rs.*
	To Sales		13,380	nil		By Bill	8592	2768
	„ Balance c/d		—	2,768		Commission	1197	
						Bill	3140	
						Bill in transit	451	
	Rs.		13,380	2,768			13380	2768

It can be readily understood that the first consignment is now completely disposed fo the proof of which is—

Ist consignment Ranade owes for sales		13,380
Less Amount paid by Ranade when goods consigned		8,592
		4,788
	Or	
Profit on sale=sales	Rs. 13380	
Less Invoice price of goods sold	10740	
	2640	
Plus proportion of cost still unpaid (1/5 x 10740)	2148	4,788
This is discharged by		
(i) Commission due to Ranade	1197	
(ii) Remittances	3591	4,788

In order to make the problem complete, the second consignment will be dealt with and for this purpose it is assumed that the remaining goods are sold for Rs. 4460 the commission terms remaining as before.

The account of Ranade as to the second consignment is contined from the balance brought down at Rs. 2,768.

Ranade (Second consignment)

Dr. Cr.

Date	*Particulars*	*F*	*Amount Rs*	*Date*	*Particulars*	*F*	*Amount Rs.*
	To Sales		4460		By balance		2768

		,, Commission	423
		,, Bills etc.	1269
	Rs. 4460		Rs. 4460

Proof

	Rs.	Rs
2nd Consignment—Sales		4,460
Less Amount paid by Ranade when goods were consigned (4/5 x 3460)		2,768
		Rs. 1,692
Profit on Sales—Sales	4,460	
Less Invoice price of goods sold	3460	
Plus Proportion of cost still unpaid (1/5 x 3460)	692	1692
The commission is calculated thus 5% on Rs. 3460	173	
25% on Rs. 4460—3460 i.e. Rs. 1000	250	423

The consignment Account in Barua's books will be Consignment to Ranade

Dr. **Cr.**

Date			Date		
Date	*To Balance c/d*	*2610*	Date	By Sales (as per Account sale)	4460
	,, Commission				
	5% on Rs. 3460	*173*			
	25% on Rs. 1000	*250*			
	,, Profit & Loss A/c	*1427*			
		4460			4460

The total profit will be

	1st Consignment		*2nd Consignment*		*Total*
	Rs.	Rs.	Rs.	Rs.	Rs.
Sales		13,380	—	4460	17,840
Less Cost	7,840		2610		
Commission	1,197	9,037	423	3033	12,070
Profit & Loss Account per consignment A/c		4,343		1427	5,770

Exercise I

Messers Dalal & Company of New Delhi have despatched 1000 boxes of food products, costing Rs. 500 per box to M/s. Raj Bros. of

Hissar on 1st January, 1984, following transactions took place during the month of January, 1984:

Jan., 1984.

1	Despatch of the goods. The Consignor spent Rs. 5,000 on the package, Rs, 2,500 on the carriage and Rs. 1,000 for insurance.
5	M/s. Raj Bros. got the delivery of the goods and spent Rs. 7,500 on freight and Rs. 1,200 on the unloading of the goods
8	M/s. Raj Bros. spent Rs. 1,000 as warehouse rent on the goods and sold 10 boxes at Rs. 750 per box on cash.
12	M/s. Raj Bros. sold 150 boxes to M/s. Daulat Ram and sons at Rs. 800 per box on a credit of 15 days.
17	200 boxes were sol on cash & Rs. 600 per box.
22	A bank draft of Rs. 10,000 was despatched to Dalal and Company.
25	Rs. 500 were spent on the upkeep of the office by M/s. Raj Bros.
29	The total amount was realized from M/s. Daulat Ram & Sons after allowing Rs. 200 as trade discount. M/s. Raj Bros. charges 1/2% Del credere commission and 3% as ordinary commission.

Pass the necessary journal entries in the books of both the parties (consignor as well as consignee) from the above particulars and ascertain the net profit/loss on the consignment after the proper valuation of stock in hand on 31st Jan. 1984.

Exercise No. 2

Desai of Surat and Nathu Mal of Jaipur enter into a joint venture. Desai contributes Rs. 1,00,000 and Nathur Mal Rs. 1,50,000. They pruchase for cash 20 colour T.V. sets at Rs. 6,000 each and consign 17 to their agent Desouza of Nagar Haveli invoiced/at Rs. 8,000 each Desai pays freight Rs. 1,000. The agent pays landing charges of Rs. 1,890 on 15 sets only; the remaining 2 being irreparable damaged by water, a claim being preferred against the under writers. The agent incurs the selling cost of Rs. 890 and is entitled to 5% commission on sales and a further 10% commission on net profits after charging up both commissions.

The sales of Desuza are 5 at Rs. 11,000 each.

As to the remaining 10, 5 have been sent to Peter of Goa who is the second agent and the latter reports that he has sold them @

Rs. 11,550 per set and remits the amount less 5% of his commission a draft thereof. The remaining 5% of his commission a draft thereof. The remaining 5 sets are sold by De Sauza for Cash @ Rs. 10,000 per set The damaged sets are sold at 50% of the cost price for cash. In the meantime, Dsai and Nathu Mal withdraw Rs. 40,000 and Rs. 60,000 fron Joint Cash Account. They share Profits 1:2. De Souza remits a draft for Rs. 5,00,000

Prepare necessary accounts.

Exercise 3

On March 1, 1984 Tarun Consigned cloth to the value of Rs. 65,000 at cost to Tao of Arunachal Pradesh his agent at Ita Nagar who accepted a 90 day sight draft for 80% of the normal selling price. The draft was discounted at a cost of Rs. 13,000.

Tarun's normal selling price was cost plus 50% and Tao was entitled to a commission at the relief of 10% on normal selling price plus 25% of any surplus price above normal.

Tarun paid Rs. 3,500 as freight as Rs. 650 as insurance. On 30th September, 1984 Tao notified Tarun that 4/5th of the goods had been sold for Rs. 82,400 and the selling expenses were Rs. 1,210.

Show these transactions in the ledger of both the parties.

Note: A practice set on consignment Accounting is given below:—

ACCOUNTANCY PRACTICE SET—CONSIGNMENTS

Roy & Co. of Delhi sends on consignment Bi-cycles to their agent Krishna Kumar & Co., Station Road, Mysore.

Enclosed herewith are the original papers relating to their business transactions for the quarter 1st January, 1985 to 31st March, 1985.

Let us analyse the transactions on the basis of these papers and process the entire information through the various stages of the book keeping cycles. We shall enter the transactions in the journal, post them into the ledger both in the consigner's books and consignee's book and can find out the net profit or loss sustained by the consignor.

Roy & Co.
D-16, Cannaught Circus
Delhi-1 Dated: 28th December, 1984.

Ref. No. C/15

To

M/s Krishna Kumar & Co.
Station Road, Mysore.

Dear Sir,

With reference to your letter No. 87 dated 24th December, 1984, we are very much pleased to appoint you as our agent in Mysore city for selling our cycle.

As per contract you are supposed to send us one—third of the price of the goods by Bank Draft after receiving the goods. Balance will be settled quarterly. You will get 5% commission on gross sale proceeds and 1% delcreder commission. Other incidential charges will be borne by us.

After receiving your confirmation we are going to send the consignment to you.

Yours faithfully,

Sd/-
(A.K. ROY)
For Roy & Co.

KRISHNA KUMAR & CO.
STATION ROAD, MYSORE

Ref. No. 94 *Dated 30th December, 1984*

Dear Sir,

We are in receipt of your letter No. C/15, dated 28th December, 1984 and very much glad to learn that you have appointed our firm as your consignee for the State of Karnataka.

We agree at your proposal regarding rate of commission, Delcreder arrangements and advance payment etc.

Please send us immediately at least 1000 bi-cycles (22″) green colour. We assure you we shall be able to sell these quantities within 31st March, 1985.

Yours faithfully,

Sd/-
(K. KUMAR)
For Krishna Kumar & Co.

PROFORMA INVOICE
ROY & CO.
D-16, CANNAUGHT CIRCUS,
DELHI-1

No. 52 *Dated: 1st Jan., 1985*

To

M/s. Krishna Kumar & Co.
Station Road, Mysore.

Sl. No.	*Descrition of the Goods*	*Details*	*Amount*
1.	1000, 22" Bi-cycles green colour @ Rs. 300.00 each		3,00,000
	Freight paid on consignement		16,000
	Insurance effected on the consignment		4,000
	Total:		3,20,00

(Rupees three lakhs twenty thousand only)

E.& O.E.

Sd/-
(A.K. ROY)
For ROY & CO.

KRISHNA KUMAR & CO.
STATION ROAD, MYSORE

Ref. No. 105 *Dated: 10th January, 1985*

Dear Sir,

We acknowledge the receipt of your consignment forwarded by you on 1st January, 1985 vide proforma Invoice No. 52 but owing to lorry accident in Bhopal, 100 Bicycles totally destroyed and we have received only 900 Bicycles. As per our contract we are sending herewith by way of Bank Draft No. 25/81 payable at S.B.I. Parliament Street, Delhi for Rs. 90,000/- (i.e. 33 1/3% of the cost price of the Cycle) by way of advance.

We shall send account sales in due course.

Yours faithfully,

Sd/-
(K. KUMAR)
For KRISHNA KUMAR & CO.

STATE BANK OF INDIA
MYSORE BRANCH

B. Draft No. 25/81 *Dated 10th January, 1985*

Pay to Roy & Co. or order the sum of Rupees Ninety thousand only.

Sd/-
(D.DIBNATH)
Accountant

Rs 90,000/-

To
Parliament Street Br.
New Delhi

To

The Branch Manager,
National Insurance Co.
15, Barakhamba Road, Delhi-1

Ref No. C/39

Ref. Insurance claim for Rs. 32,000/- against Pol. No. 51239

Dear Sir,

On 1st January, 1985 we sent by lorry 1000 Bi-cycles to our agent Krishna Kumar & Co. Mysore, but on its way in Bhopal the lorry No. DLF-5125 of Chacha & Co. (Delhi) met with a road accident and 100 cycles were completely destroyed.

It was uner Kotwali Police Station, Bhopal. We lodged F.I.R. to the police station and the relevent papers given by them to us will testify truth.

After sending your surveyar at the place of occurence please pay claim to us at an early date.

Yours faithfully,

Sd/-
(A.K. ROY)
For ROY & CO.

Dated: 11th January, 1985
Encl: (Copy of Police Report.

NATIONAL INSURANCE COMPANY

Phone: 672875
15, BARAKHAMBA ROAD
DELHI-1
Dated: 27th January, 1985

To

M/s Roy & Co.
D-16, Connaught Place
New Delhi-1

Ref: Your letter No. C-39 dated 11th January for Insurance claim of Rs. 32,000/-

Dear Sir,

We have enquired about the matter of road accident cited by you and pleased to admit a claim of Rs. 25,600/- (Rupees twenty-five thousand six hundred only) as the policy issued under average clause of 80% loss to be covered and an account payee cheque is enclosed herewith.

Encl: Cheque No. 6585 on Bank
of Baroda, Cannaught Circus Branch
New Delhi-1.

Yours faithfully

Sd/-
(D. DESAI)
Branch Manager
National Insurance Company

BANK OF BARODA

CANNAUGHT CIRCUS BRANCH

Cheque No. C 6586 *Dated: 25th January, 1985*

Pay to Roy and Co., or order a sum of Rs. Twenty-five thousand six hundred only.

R. Saha
Accountant
D. Desai
Manager

Rs. 25,600/-

ACCOUNT SALES

Account sales of 800 cycles received from Roy & Co. Connaught Circus, and sold on their behalf by M/s Krishna Kumar & Co., Station Road, Mysore

800 Bi-cycle were sold @ Rs. 440/- each		3,52,000
Less, Charges		
Octroy & Cooly Charges for unloading	28,800	
Commission @ 5%	17,600	
Delcredere commission @ 1%	3,520	49,920
		3,02,080
Less amount already sent by Bank Draft on 10.1.85		90,000
		2,21,080

E. & O.E.
Mysore
31st March, 1985

K. KUMAR
Signature

Encl: Bank Draft No. 53/81 on S.B.I. Parliament St., New Delhi.

STATE BANK OF INDIA

MYSORE BRANCH

B. Draft No. 53/81 *Dated: 31st March, 1985.*

Pay to Roy and Company or order the sum of Rupees two lakhs twenty thousand and eighty only.

Rs. 2,12,080

Sig. D. Deenath
Accountant

Sig. R. Nayer
Manager

To

Parliament Street Branch
New Delhi-1

Answer:—

i)	Profit on Consignment	: Rs. 49,280/-
ii)	Abnormal Loss	Rs. 6,400/-
iii)	Amount due from Consignee	Rs. 49,280/-

UNIT-10

Joint Ventures

1. Introduction

The term, 'Joint Venture' is generally used in relation to dealings in consignment stock and shares. Joint venture is a joint effort in trading. Two or more persons/enterprises who are called as co-ventures may bring together their individual capital and efficiency either for performing a job or trading in a particular merchandise. The Joint venture accounts have assumed greater importance with the emergence of large scale production and dealings. When a job or trade involve investment of considerable amount of financial resources which may be difficult for any individual to arrange the joint venture is resorted to as a way out. The Joint ventures require a particular system of accounting. Some of the relevant questions which arise in this connection are: whether the complete set of accounting books should be maintained by each of joint ventures, or it should be kept by an individual joint ventures, or there should be a complete independent system, of accounting for a particular job. The students should know each system, and evaluate the merits and demerits of each of the alternative. The teacher should help the students in this process of understanding and evaluating the system.

2. Objectives

The objectives of this unit are to enable the students:

(1)to understand the meaning of joint venture;

(2)to know precisely the difference between joint venture and partnership.

(3)to appreciate that joint venture accounts might be written in atleast two ways, and

(4)finally to ascertain amount of net profit/loss on a joint venture.

3. Contents

Following aspects of joint venture accounting shall be included in this unit:

(i) Preparation of joint venture accounts.

(ii) Determination of joint venture profit/ loss.

(iii) Valuation of Stock on hand at close.

Where the goods relating to the venture are provided by one of the parties out of his business goods, that party would debit the Personal Account of the other and credit the purchases Account with the figure at which it is agreed that the goods shall be valued. This figure will, of course, be recorded in the Memorandum Joint Venture Account on the debit. If, at the close of the venture, there are goods on hand and one of the parties takes them over at an agreed figure, he will credit the Personal Account of the other party (and debit purchases Account with the amount). The same amount will be recorded on the credit side of the Memorandum Joint Venture Account

Where an interim settlement is desired, prior to the completion of the venture and there is a certain amount of stock on hand of either or both the parties, special treatment is necessary. The total value of stock is brought down on the debit side of the Memorandum Joint Venture Account as a balance and each party will bring down in the Peresonal Account in his books the amount of the Stock that he has in hand; thus, representing his share of assets employed in the venture.

The teachers may expain an alternative method of bringing down the value of stock in the books of account that is, to divide it between the two parties in their profit sharing ratios and for each party to bring into account in his books his share of the stock. In the account, this balance should be brought down separately and not merged with the other items. This can be illustrated by taking an example. Suppose A&B are two co-ventures who share profits and losses in the ratio of 3/5 and 2/5. The closing stock-in-trade on 31st Dec., 1984 valued at Rs. 600 in the hands of A and Rs. 400 in the hands of B. Here the total stock of Rs. 1,000 may be divided between A and B as Rs. 600 and Rs. 400 in the agreed ratio of sharing Profit & Loss.

The Stock-in-trade on the balancing date may usually be valued on the basis of cost plus a due proportion of the expenses attributable there to or at market value, whichever is lower. In case where other assets are held and depreciation is to be taken into account, the assets may be brought into the books of account at the balancing date at their written down value, the depreciation charge being thus automatically included in Profit & Loss Account. This can, of

course, only be done where the assets have been previously debited to the Joint Venture Accounts, otherwise, the agreed depreciation charges will be debited to the respective Joint Venture Accounts and credited to the respective depreciation accounts.

4. Instructional Aids

1. Teachers Guide
2. Text materials
3. Problem materials
4. Complete Practice Set
5. Photostat copies of agreements between two or more Joint Ventures.

5. Methodology

While teaching the subject matter of this unit, the following sequence shall be helpful.

(1) The teachers are adivsed to expalin clearly the meaning and features of joint venture account at the very first stage. The discussion on this aspect can be supplemented by the display of actual agreement between two or more co-ventures of the local place.

(2) As the students grasp the preliminary knwoledge of the joint ventrue, they may be introduced to the system of accounting procedures that may be adopted by joint venturcs. The teachers are advised to go in detail of each of the two methods of accounting discussed with their respective merits and demerits. This should be explained to the students that if the number of transactions between two joint ventures are small, Memorandum Joint Venture Account system is suitable and when the number of the transactions between two co-venturers are large, independent system of double entry may be useful.

(3) Since the problem of stock taking at balancing time arises, the students should be made familiar with the process of its valuation. The teacher should explain the alternative methods of stock taking. If possible the students may be exposed to the process of actual stock taking by sending them to the business houses of the joint ventures.

(4) The teacher is supposed not only to explain the theoretical aspects of 'Joint Venture' but also use the black board frequently to demonstrate various entries as well as accounts to be opened. The following illustrations explains this:

Illustration No. 1

Mr. A & B are Co-ventures in a joint venture who share profit or loss in the ratio of 3 : 2, the profit for the year ending 31st Dec., 1984 is Rs. 15,000 which will be divided as Rs. 15,000 x 3/5 = Rs. 9,000 to A and Rs. 15,000 x 2/5 = Rs. 6,000 to B.

In the books of A

	Dr.	Cr.
Joint venture with B A/c Dr.	9,000	
To Profit & Loss A/c		9,000

In the books of B

Joint Venture with A A/c Dr.	6,000	
To Profit & Loss A/c.		6,000

Suppose the joint venture results in a loss of equal amount, the entry would be reversed in the books of each of the Co-venturers. The Memorandum Joint Venture Account would be debited by the share of each Co-venturer in Profit and each co-venturer account would be credited. In this case the entry would be

Memorandum Joint Venture A/c Dr	15,000	
To A		9,000
To B		6,00

Illustration No. 2

Suppose in previous illustration the cost of purchases is Rs. 40,000 and the expenses incurred by A are Rs. 600 and by B Rs. 400. The sale proceeds amount to Rs. 56,000. The Memorandum Joint Venture Account would be prepared as below:

Memorandum Joint Venture A/c

Dr. **Cr.**

Date	*Particulars*	*Amount Rs*	*Date*	*Particulars*	*Amount Rs*
	To Purchase	40,000		By Sales	56,000
	,, Expenses				
	A 600				
	B 400	1,000			

	To Profit						
	A 9,000						
	B 6,000		15,000				
			Rs. 56,000				56,000

Illustration No. 3

Ram and Rahim enter into a joint venture contributing Rs. 10,000 and Rs. 8,000 respectively and sharing profits and losses as 3:4. The purchases are Rs. 16,000 and the sales Rs. 20,000. The remaining stock is taken by Rahim for Rs. 1,000 Expenses paid are Rs. 600 and expenses outstanding unpaid Rs. 200. Complete double entry records are kept. All transactions are for cash. Ram draw out Rs. 4,000. The accounts are to be shown in separate joint venture books.

Joint Venture Books

Joint Venture Trading Account

Dr. **Cr.**

Date	*Particulars*	*F*	*Amount Rs.*	*Date*	*Particulars*	*F*	*Amount Rs.*
	To Purchase		16,000		By Sales		20,000
	,, Cash Expenses						
		600					
	And out standing	200	800		Rahim Goods takenover		1,000
	Profit:	Rs.					
	Ram 3/7	1800					
	Rahim 4/7	2400	4,200				
			Rs. 21,000				21,000

RAM

Date	*Particulars*	*F*	*Amount Rs*	*Date*	*Particulars*	*F*	*Amount Rs.*
	To Cash		4,000		By Cash		10,000
	,, Balancc		7,800		,, Share of Profit		1,800
			11,800				11,800

Rahim

Date	Particulars	F	Amount Rs	Date	Particulars	F	Amount Rs.
	To Joint Venture Trading A/c (Goods Takenover)		1,000		By Cash		8,000
					„ Share of Profits		2,400
	Balance C/d		9,400				
			10,400				10,400

Cash A/c

Date	Particulars	F	Amount Rs.	Date	Particulars	F	Amount Rs.
	To Ram		10,000		By Joint Venture Trading A/c (Purchases)		16,000
	To Rahim		8,000		„ Joint Venture Trading A/c (Expenses)		600
	To Sales		20,000		By Ram		4,000
					„ Balance C/d		17,400
			38,000				38,000

It will be observed that the cash balance in hand is now sufficient to pay off the outstanding expenses of Rs. 200 and to pay out the ventures balances.

Once this demonstration is over, students must be asked to solve the questions themselves. This will necessarily show the extent to which they have been able to grasp the subject under discussion.

6. Evaluation

For evaluation, the teachers are suggested to frame the questions themselves covering the various aspects of the Joint Ventures. The following questions are suggestive.

1. Mr. Subramanyam and Mr. Rao agree to start a business and share Profit & Loss equally. Is it the case of Joint venture or partnership?
2. Mr. Mukherjee, Mr. Pannikar and Mr. Sher Khan commence a trade with a capital of Rs. 20,000, Rs. 10,000 and Rs. 10,000 respectively. They further agree toshare profit & Losses in the ratioof their capital. The business concerned is a supply contract

for a year. Is it a joint trade or joint venture or a partnership?

3. Sardar Balwant Singh and Sardar Hanumant Singh are joint venturers in a contract business. Their investment is within Rs. 1,00,000 and contractual return is expected Rs. 20,000. They seek your advice for a suitable method of accounting. Suggest with reasons.
4. Which of the following factors influence the adoption of suitable method of accounting for a joint venture enterprise?
   i) Size of Capital
   ii) Tenure of business
   iii) Number of transactions
5. Distinguish between:
   (a) Joint Venture and Partnership.
   (b) Co-ventures and Co-parceners.
   (c) Co-ventures and Co-shares.

Beside the above theoritical questions teachers may take help from the numerical exercises given below to judge the understanding of the students.

Exercise 1

Ram Raj and Hans Raj enter into a joint venture on 1st January, 1984 to sell a consignment of ready made garments and sharing profits and losses equally. Ram Raj procures the garments from a reputed manufacturer at a value of Rs. 50,000. He pays expenses amounting to Rs. 2,500. During the month, Hans Raj incurs expenses to the order of Rs. 6,500 and receives cash for sales Rs. 30,000. He also takes over goods to the value of Rs. 1,000 for his personal use and goods worth Rs. 9,000 for the use of his family members. On 31st January, 1984 the stock in Ram Raj's hands is valued at Rs. 11,000. The remaining stock of Rs. 11,000 was taken over by Ram Raj for Rs. 12,000 on 1st February, 1984. Prepare the necessary accounts.

Exercise 2

Mr. Abraham and Mr. Nair of Cochin enter into a joint venture agreement of supplying certain goods to Kerala Government during the year 1984. On 1st January, 1984, Mr. Abraham deposited Rs. 50,000 and Mr. Nair deposited Rs. 75,000 in a Joint Venture A/c of a bank and agreed to share profits & Losses in the ratio of their amounts deposited with the bank. During January, 1984 Mr.

Abraham supplied goods worth Rs. 40,000 from his stock and purchased the goods of Rs. 20,000 for the common pool from the open market. He spent Rs. 3,000 as packing charge and Rs. 1,000 as cartage during the month of March, 1984. The goods of Rs. 60,000 were supplied by Mr. Nair from his own stock to the common pool during May, 1984. He spent Rs. 2,500 as salaries and Rs. 1,500 as godown rent in the month of July. During August, 1984 and November, 1984 the value of goods supplied to Kerala Stock at Rs. 80,000 and Rs. 70,000 respectively on 31st December, 1984. The accounts were closed and final settlement was done. Prepare Personal Accounts of two Co-ventures and Memorandum Joint Venture Account assuming that there was no stock in hand on 31st December, 1984. All payments were made out of joint Venture A/c of the Bank and all receipts were deposited therein.

Exercise No. 3

Mr. P. Tilak Raj and Mr. C. Sridhar Reddy enter into a joint venture from 1st September, 1984 for holding, purchase and sale of investments, profits and losses to be shared in the ratio of 3:2. On 30th September, 1984 the following shares were purchased:

2000 in Kohinoor Ltd. for Rs. 30,000
2000 in Vimal Ltd. for Rs. 50,000
400 in Ganesh Ltd. for Rs. 40,000

These are paid for on 1st October:

Satta Boy provides Rs. 80,000 and remaining amount is paid directly be Sridhar Reddy to the broker. The following are the dividents received and transactions entered into:

1984		
Nov. 30	Interim Dividend, Kohinoor Ltd.	3,000
Dec. 31	Dividend from Vimal Ltd.	2,500
Dec. 31	Dividend from Ganesh Ltd.	4,000

Dealings

Oct. 31	1000 shares of Kohinoor Ltd. sold for Rs.	20,000
Nov. 30	500 Vimal shares were sold for Rs.	25,000

The Shares in hand were valued at 95% of their cost on 31st December, 1984.

Prepare all the relevant accounts assuming that independent system of Double Entry Accounting is in practice.

Unit-II

Accounts of Non-Trading Organisation

1. Introduction

Institutions, like hospitals, schools, colleges, clubs etc. do not carry on trading activities for the purpose of earning profit. Hence they do not prepare a formal Trading and Profit and Loss Account as is prepared by the Profit earning organisations. However, they do want to know:

(I) What is their cash position on a particular date and whether their cash receipts are sufficient to meet the cash payments during the period. For this purpose a Receipts and Payments Account is prepared to see that the Cash payments remain within the cash receipts. This also enables them to know the cash balance at their disposal on a particular date in order to plan their expenditure.

(ii) Whethcr their current revenue income is enough to meet their current revcnue expenses. An Income and Expenditure Account is prepared to know how far the income exceeds the expenditure or the expenditure exceeds the income for the period.

(iii) What is their financial position at the end of the accounting period. **A Balance Sheet** is prepared to know the position of the Assets and Liabilities at that point of time.

2. Objectives

(i) The students will be able to distinguish between the items of *Capital* and *revenue* nature. They will be able to identify the capital receipts and the capital payments as well as revenue receipts and revenue payments.

(ii) The students will be able to identify the revenue receipts and payments on the Accrual basis. They will relate these transaction to a particular period on accrual basis and not on cash basis.

(iii) The students will be able to prepare a *Receipts and Payments*

Account indicating the actual receipts and actual payments for the period and would find out the balance of cash in hand on a particular point of time.

(iv) The students will be able to prepare an Income and Expenditure account on accrual basis with the help of the revenue items in order to find out the excess of income over expenditure (the Surplus) or the excess of expenditure over income (the Deficit) for the period.

(v) The students will be able to draft a position statement in the form of a Balance Sheet at the end of the period with the help of the items of the Capital nature.

3. Course Content

(i) The distinction between Capital and Revenue transactions.

(ii) Treatment of the transactions

  (a) on cash basis for the purpose of preparing the *Receipts and payments account;* and

  (b) on accrual basis for the purpose of Income & Expenditure account;

(iii) Preparation of *Income and Expenditure Account* from the given Receipts and Payments Account for a particular period.

(iv) Preparation of the *Balance Sheet*

  (a) as at the beginning of the period in order to ascertain in the Capital fund at that point of time (if not know); and

  (b) as at the end of the period in order to ascertain the overall financial position of the organisation.

4. Methodology

The teacher can simulate practical real life situations in the class room in order to explain:

(a) the difference between the items of Capital and revenue nature; and

(b) the treatment of various items on accrual basis.

Capital expenditure is an expenditure that results in the acquisition of an asset for use rather than for resale. The teacher may emphasise that a capital expenditure yields benefits for a long period. The students can be given examples like

(i) The acquisition of land, buildings and machinery etc; all these things stay with the business for a long time and are not

acquired for the purpose of resale immediately. The business will benefit from these items over a long period of time;

(ii) The amount paid for the goodwill while purchasing a business as this will attract the old customers of the acquired business resulting in higher sales and profits over a long term.

(iii) The amount spent on the improvement of the machine to reduce the working expenses e.g. converting a manual press into a power driven press leading to increase in production at a comparatively lower cost per unit.

(iv) The amount spent upto a point, an asset is ready for use will also be treated as Capital expenditure e.g. wages paid on the erection of the machinery; fees paid to the lawyer for drawing up the purchase deed of the land. Similarly the amount of interest paid on the loan raised to purchase deed of the land. The amount of interest paid on the loan raised to purchase a fixed asset can also be capitalised and added to the cost of the asset, but only *for the period before the asset is ready for use.*

Revenue expenditure is that expenditure whose benefits expires within one accounting year. It is also the expenditure of a recurring nature which merely seeks to maintain the assets in good working condition. The examples of the following type can be given:

(i) Salaries and wages paid to workers in the office and factory; electricity and power expenses for office and factory. Such expenses do not increase the efficiency of the business, nor do they result in the acquisition of any permanent asset.

(ii) Decrease in the value of an asset due to wear and tear or passage of time is a revenue expense.

(iii) Materials purchased is a Capital expenditure until it is consumed. The extent to which the material is consumed will be the revenue expenditure. For instance if the materials worth Rs. 1000 are purchased and those worth Rs. 750 have been consumed, then the materials worth Rs. 250 will be treated as Capital expenditure and that worth Rs. 750 will be treated as revenue expenditure.

The Receipts and Payments account is prepared on the following lines:

(i) Commencing it with the opening balances of the cash in hand or at bank on the receipt side, only cash transactions will be shown in the account. Cash receipts will be written on the receipt side and cash payments will be written on the payment side.

Receipts and Payments are classified under suitable headings.

(ii) Receipts and payments of both Capital and revenue nature and also those relating to past, present and future will be recorded in the Receipts and Payments Account.

(iii) Expense which has not been paid for in cash or any income which has not been received in cash, will be recorded in the Receipts and Payments Account.

(iv) The difference between the two sides of the account will be the balance of cash in hand. It is evident that the Receipts side will always be more than the payment side.

The entries in the Cash Book and Journal will be made on the basis of the accounting vouchers (explained in Teacher's Guide in Accounting Practice II). Those transactions which cannot be entered in the Cash Book shall be entered in the Journal through the account ing Vouchers. Cash Book and Journal will then be posted into Ledger. At the end of the period, a trial balance and a receipt and payment account be prepared.

The closing balance of the Receipts and the Payments account does not mean that income for the year has exceeded the expenditure by an amount equal to the balance of cash in hand. It may be that there is sufficient cash balance in hand and yet the income may be less than the expenses. There may have been a large amount of cash received by way of the sale of an asset; but this is not income as it is merely an exchange of one as set for another. Income should be differentiated from receipts of cash and also an expense should be distinguished from the payment of Cash. There may be payment of cash for the purchase of furniture but the same is not an expense. In order to know the relative position of the income and expenses, an Income and Expenditure account has to be prepared. *The Income and Expenditure Account is* prepared on the basis of accrual and matching principals i.e.:—

(i) No item of Capital nature is included in this account, but all items of revenue nature are included in this account;

(ii) Revenue expenses and incomes must relate only to the period for which the account is prepared. It is immaterial whether these expenses and incomes have been paid or received in cash or not.

(iii) Revenue items relating to the periods before and after the accounting period (past and future) will be excluded.

As all the Cash Book entires have been summarised into the

Receipts and Payments Account for thc year, all information necessary to prepare the Income and Expenditure account shall be found in it. A careful scrutiny of both the sides of this account will reveal as to what items are of revenue nature and what are of capital nature. Additional available information will also help in identifying as to which payments and receipts of cash relate to past and future so as to eliminate them while preparing the Income and Expenditure account. If the Receipts and payment account shows the subscription received as Rs. 10,300 including Rs. 300/- for the next year, but subscription for the year to the extent of Rs. 200 have not been received, the following entries to adjust the subscriptions will be passed :—

(i)	Subscriptions Account — Dr. 300 To Subscriptions Received in Advance Account	 300
(ii)	Subscriptions Outstanding A/c 200 To Subscriptions A/c	 200

In the Income and Expenditure Account the account of subscription received shall be reduced by Rs. 300 (advance) and increased by Rs. 200 (outstanding). Subscription outstanding will also appear as an asset in the Balance Sheet and Subscription received in advance will appear as a Liability in the Balance Sheet of the period.

Similarly if the salaries paid during the period are Rs. 1,650 including Rs. 250/- for the next year but at the end of the period Rs. 325/- on account of salaries are yet to be paid. The following entries to adjust the salaries paid will be made.

(i)	Salaries paid in Advance A/c Dr. 250 To Salaries Account	 250
(ii)	Salaries Account Dr. 325 To Salaries outstanding A/c	 325

In the income and Expenditure Account, the amount of salaries paid shall be reduced by the amount of salaries outstanding for the year. Salaries paid in advance will also appear on the asset side and the salaries outstanding shall appear on the Liabilities side of the

Balance Sheet of the period.

In addition to the Income and Expenditure account, Balance Sheet also prepared as on the closing date of the year. Both Income and Expenditure account and Balance Sheet are prepared on the basis of the summary of Cash transactions (Receipts and Payments Account) for the year and other relevent information.

Balance Sheet

In the absence of a regular trial balance, a balance sheet can be prepared by taking the closing balances of various personal and real accounts maintained during the year. Outstanding expenses and Incomes received in advance will be shown on the liabilities side. Expenses prepaid and outstanding incomes shall appear on the assets side of the balance sheet. The Capital fund will be increased or decreased by the current years' surplus (excess of Income over expenditure) or deficit (as the case may be).

Receipts of the capital nature should be written directly in the liabilities side such incomes against which service has to be rendered for a long period without any further payment, such as life membership fees, should be added direct to the capital fund and not credited to the Income and expenditure Account. Special purpose receipts like donations are taken straight to the balance sheet. Expenses incurred for the specific purpose will be deducted from it. As regards the entrance fees, if the amount is small it can be treated as a revenue incomes and credited to the Income and Expenditure account. On the other hand if the amount is considerably large, it can be capitalised and added to the capital Fund in the Balance Sheet.

Note: An illustration showing the preparation of an Income & Expenditure Account and a Balance Sheet from a Receipts and Payments Account is given below:—

Illustration

From the following information prepare Income and Expenditure Account for the year ended 31st December, 1984 and Balance Sheet as on that date.

(i) *Balance Sheet*
as on 31st December, 1983.

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital Fund	30,610	Cash at Bank	180
		Cash in hand	300
Rent Outstanding	100	Furniture	8,000
		Instruments	20,000
		Outstanding	230
		Scooter	2,000
	30,710		30,710

(ii) *Receipts and Payments Account*
for the year ended 31st December, 1984.

Date	Receipts	Amount Rs.	Date	Payments	Amount Rs.
1984			1984		
Jan 1	To Balance		Mar 31	By Salaries	3,000
	Cash in Bank	180		" Rent	1,200
	Cash in hand	300		" Printing and Stn.	150
Mar 31	To Subscription (including Rs. 300 for the year 1985)	4,500		" Postage	40
				" Books	1,600
				" Balance	
	Interest on Investments @ 10%	2,000		—Cash at Bank	1,235
	Bank Intt.	25		—Cash in hand	30
	Sale of Scooter	250			
		7,255			7,255

(iii) (a) Subscriptions include Rs. 230 for the year 1983.
(b) Rent include Rs. 100/- paid for Dec. 1983.
(c) Subscriptions amounting to Rs. 280/- have still to be collected for the year 1984.
(d) Rent for the month of December 1984 is yet to be paid Rs. 100
(e) Rs. 25 is outstanding against a stationary bill.
(f) Depreciate furniture 10%

Solution

Income and Expenditure Account for the year ended December 31, 1984.

Expenditure		Amount Rs.	Income		Amount Rs.
To Salaries		3,000	By Subscriptions collected	4,500	
To Rent			Less relating to 1983	230	
Paid	1200			4,270	
Less outstanding	100		Less relating to 1985	300	
	1100			3,970	
Add outstanding for 1984	100	1,200	Add outstanding for 1984	280	4,250
To Printing and Stationery		150	By Interest on Investments		2,000
Add outstanding for 1984		25	By Bank Interest		25
To Postage		40	By Excess of Expenditure over Income (Deficit)		690
To Loss on sale of Scooter					
Book Value	2000				
Less realised	250	1,750			
		6,965			6,965

Balance Sheet as on December 31, 1985

Liabilities		Amount Rs.	Assets		Amount Rs.
Capital Fund	30,610		Investments		20,000
Less Excess of			Books		1,600
Expenditure over			Furniture	8000	
Income Deficit	690	29,920	Less Dep	800	7,200
			Subscriptions		280
Outstanding			*Outstanding*		
(i) Rent	100		Cash at Bank	1235	
(ii) Printing and			Cash in hand	30	1,265
Stationery	25	125			
Subscription received					
in advance		300			
		30,345			30,345

5. Evaluation

Student's understanding of the application of Accounting principles to non-trading organisations can be evaluated by using the following techniques:

(A) Objective type questions can be asked on the identification of:—

(a) Capital and revenue expenditure;

(b) Revenue receipts and payments pertaining to present, past and future periods.

(B) A list of account balances may be given and students may be asked to identify them for the following categories:

(a) Capital income

(b) Capital expenditure

(c) Revenue expenditure

(d) Revenue income

The following list is for test purposes only:

— Paid wages

— Outstanding wages:

— Prepaid expenses

— Paid for Machinery purchases

— Purchased furniture

— Received sale proceeds
— Received proceeds of old machine sold
— Paid wages for erection of machinery
— Paid interest
— Received rent of recreation Hall
— Subscriptions received
— Subscriptions in arrears
— Subscriptions in advance
— Sale of old newspapers
— Cost of organising the cultural evening
— Payment of royalities to artists
— Sale of old utencils

Many more items can be added to provide greater practice and a greater facility in identifying various types of items.

(C) A performance test may be given to the student in the class room. The students may be asked to work out the amounts relating to subscriptions and salaries etc. which would appear in the Income and Expenditure Account after making necessary adjustments, e.g.

Find out the amount to be debited/credited to the Income and Expenditure Account for the year ending 31st December, 1984.

(i) (a) Subscriptions received during the year — Rs. 10,820/-
(b) Subscriptions outstanding at the end of the year — Rs. 720/-
(c) Subscriptions received in advance for the year 1985 — Rs. 360/-

(ii) (a) Salaries paid during the year — Rs. 3,460/-
(b) Salaries outstanding at the end of the year — Rs. 250/-
(c) Salaries paid in advance for Jan. 1985 — Rs. 360/-

(iii) Sports materials worth Rs. 5,000 were purchased during the year and 60% of it was consumed. Old bats and balls were sold for Rs. 300/-

(iv) Complete problems should be given to the students so that they can work out these problems and prepare Income and Expenditure Account and Balance Sheet.

(D) A practice-set pertaining to Non-trading organisations containing the real life transactions should be presented to the students. On the basis of this set they can be asked to prepare a complete accounting record upto the Balance Sheet.

Part-C
UNIT-12

Practice Sets in Accountancy

Accountancy has been introduced as one of the vocational courses in many States of India. It has been observed that the approach followed by the vocational teachers is more or less the same as followed by the teachers of academic stream. One of the major deficiencies of this approach of teaching accountancy is that students do not det a feel of what goes on in a real business situation. This is due to the fact that, while we teach them various principles and procedures of book-keeping, we do not familiarise them with actual job of an accounts clerk. His job in a business consists of recording business transactions in appropriate books, the basis for each transaction being some kind of an original business paper. Nobody gives to the accounts clerk a ready made list of transactions to be entered into the books. Transactions take place at various points and these are fed back to the book-keepers through a variety of business papers like receipts, vouchers, invoices, debit and credit notes, cheques, bills of exchange etc. The accounts clerk has to have the ability to analyse and interpret original business papers from the point of view of the accounting process. A practice set can go a long way to meet this deficiency and make the teaching-learning of accountancy very natural and realistic.

What is a Practice Set

A practice set consists of original business papers relating to the transactions of a given business for a particular period of time. These papers are then arranged Chronologically. Students are required to examine each business paper carefully, explain its significance and record the transactions in the appropriate books. Thus practice sets provide an opportunity of learning as near to a practical situation as possible and at the same time it serves to synthesise the various instructional units studied in the text.

Practice sets can be of varying length and complexity and can be given to the class at various stages. For example a short practice set may be given when the simple book-keeping cycle has been taught

covering varios aspects, such as, journalising, posting, balancing, trial balancing and final accounts. Again a little more elaborate practice set may be given when the second book-keeping cycle, inclusive of subsidary books has been taught. A still more complex practicc set may include bill transaction and may be given when the unit has been taught.

Using Practice Sets

When practice sets are used to integrate learning, the teacher is chiefy concerned with providing practice not testing. In such cases, the teacher may want to keep the entire class together by going over each transaction and each step of the work at the end of the fiscal period with the class doing each step. When the class is agreed on where a transaction is to be recorded and why, each student in the class makes the proper entry. The teacher will use the same plan when postings are made and in completing the work at the end of the fiscal period. In each case the teacher draws on previous learning by having the students make the decisions regarding every phase of each step of work in the practice set. The text is referred to often to clarity points.

With the use of the practice set in this manner, the teacher is then ready to detemine, through appropriate tests, whether the student has learned to analyze, record, and interpret the records and to perform the end-of-the-fiscal-period work.

Included among the many advantages of using practice sets in this manner are:

1. The teacher can easily keep the class together.
2. The slow learner does not get lost in the process.
3. The able learner can be seated near a slow learner to make certain he/she is following each step.
4. Every student is getting much needed practice in integrating what he learned in the separate treatment given in the text.
5. The test at the end of the practice set provides the teacher and the student with an objective diagnosis of learnings that need to be strengthened.
6. The test results provide the Teacher with a basis for determining grades.

Using Practice Sets by Teams:

Another way in which the practice set can be used as a teaching and learning device is to divide the class into teams of three or four

students. The teacher attempts to set up the teams so that each team has on it a very able student, a slow learner, and one or two average students. The most able student serves as team leader.

Each member of the team has his own practice set. The leader reads the first transaction, and the team members discuss where it is to be recorded and why. Each member then records the transaction. The leader makes certain that everyone has made the entry correctly and that each one knows the WHY of the entry.

When it comes to posting the transactions, the leader again makes certain that each member of his team understands the reason for each step of the posting.

At the end of the fiscal period, the team works together on each step of work. Members of the team discuss each step and compare their results with each other.

When the set is completed, the teacher then administers a test on it. Each student does the test on his own—it is not a team test as such. The scores of each member of each team are averaged to get them score. The fact that students like to see their team score above others causes each team member to put pressure on the other members to understand the HOW as well as the WHY of recording every transaction and to understand every step in the book-keeping process.

The individual scores on the test are used to determine the grade for each student.

This plan has many advantages among which are:

1. Each able student becomes an extra arm of the teacher in that he is responsible for seeing to it that every member of his team understands every step of the work. Thus the able student is getting an important learning experience because it is well known that if one teaches something to someone else, he strengthens his own learning.

2. The able student is also getting an important experience in learning to work with others and to supervise the work of others. This is important because the able student is most likely to be in charge of others on the job.

3. Able students may, through this experience, become interested in teaching.

4. Students like teamwork, and they take pride in seeing that the team of which they are a member scores high not only in terms of the team score but also in keeping up with other teams in terms of work completed. The team members put pressure on each other to be

regular in attendance because a team cannot report transactions completed unless every team member has completed each step.

5. The slow learner does not get left out requiring the teacher either to provide him with the answers or simply let him fail.

7. Many a time students can teach each other far more effectively than can a teacher who is responsible for the entire class.

8. This kind of class organization teaches students to work together which they will have to do on most jobs.

Using Practice Sets on an Individual Basis:

An additional way in which the practice set can be used as a teaching and learning device is to allow each student to proceed at his own pace. In this kind of situation, the student may work on the set both in and out of class. He may secure any assistance he needs from other students or at home. The objective being to learn by practicing. The teaching is not concerned with keeping the class together.

When the student complete his set, he is given a test on it similar to the tests discussed previously.

The problem of what to do with the student who completes his work well ahead of the rest of the class is always a difficult one. Some teachers encourage the student to work additional practice sets that are somewhat more difficult and that require additional learnings. Others use the fast learners as auditors of problems and practice sets as they are completed by other students. Making use of the able student is very desirable because the experience of auditing the work of others is highly practical and it provides the student with additional experience and understanding.

Others use these able students as coaches of slower students. This is also a valuable experience in that these able students are getting a taste for teaching and are learning how to deal with those who are not as rapid in learning as they are.

The advantages of having each student proceed at his own pace are the following.

1. The able student does not feel that he is being held back by being compelled to go at the rate of the slowest student in the class.

2. Each student is put on his own to sink or swim according to his own efforts and abilities. This is what he will find when he takes a job, and he might as well learn to assume this responsibility while in school.

3. The lazy, indifferent student is not carried along by the

hard-working, enthusiastic student. If the lazy, indifferent student is carried along in school, he may expect the same treatment on the job. It is best to learn the facts of life while in school rather than come to a sad awakening on the job.

4. The able student may be challenged by being assigned practice sets such as those used in the beginning of accounting classes.

A Sample Practice Set

Mr. Rajan, B.Com., started his own business under the name of T. Rajan and Sons, at Sayaji Rao Road, Mysore, on January 1, 1984. He deals in a variety of dress materials.

Enclosed herewith are the original papers relating to his business transactions for the month of January, 1984.

Let us analyse the transactions on the basis of these papers and process the entire information through the various stages of the book-keeping cycle. We shall enter the transactions in the journal, post them into the ledger, balance the accounts, draw up a trial balance and prepare the final accounts so that we can get some idea of the progress made by T. Rajan and Sons during the first month.

No. 84126

Account No. 2580

The Central Bank of India Ltd.,
MYSORE

Date: 1 January, 1984

Pay T. Rajan & Sons or bearer

Rupees Twentyfive Thousand only.

Rs 25 000.00 T Rajan

WELDON AND COMPANY

FURNISHERS & DECORATORS

M/s T. Rajan & Sons
Sayaji Rao Road
Mysore
Order No

Mount Road
Madras-1
January 2, 1984

Sl No	*Particulars*		*Quantity*	*Rate*	*Amount Rs. P.*
1.	Shelves	..	10	220	2,200 00
2.	Chairs	....	12	30	360.00
3	Tables	.	6	45	270.00
4.	Cabinets with glass	...	4	380	1,520.00
5.	Wooden Screens	..	5	125	625 00
6	Ladders	....	2	110	220.00
7.	Show Case	....	1	805	805.00
					6,000
			Less 5%		300 00
			Net Amount		Rs. 5,700.00

Rupees Five Thousand and Seven Hundred only.
R.R enclosed.

E.& O.E *For* WELDON & CO.

POPULAR STORES

MAHATMA GANDHI ROAD
Bangalore
January 3, 1984

Messrs. T. Rajan and Sons, **Cash Bill** (Original)
Mysore

Particular	*Amount Rs P.*
100 metres Gwalior Suiting @ Rs 21/-	2,100.00
100 metres Terrycot @ Rs. 14/-	1,400 00
	3,500.00

Rupees Three Thousand and Five Hundred only.
Received by Cheque No. 12651 on Central Bank of India Ltd Mysore

For POPULAR STORES

R. KRISHNASWAMI & BROTHERS

DEALERS IN MODERN OFFICE EQUIPMENT

K.R. Circle
Mysore
January 4, 1984

Cash Bill (Original)

Messrs. T. Rajan & Sons
Mysore

Sl. No.	*Particulars*	*Amount* Rs. P.
1.	One Godrej Tyewriter	1,500.00
2.	One Copyholder	20.00
3.	One Adding Machine	800.00
4.	One Duplicating Machine with accessories	2,180.00
		4,500.00

Rupees Four Thousand and Five Hundred only.
Received in full (vide Cheque No. 12652 on Central Bank of India Ltd. Mysore)

For R.K. BROTHERS

Invoice No. 236

NAVAJIVAN TRADING COMPANY

124, ABID ROAD
Hyderabad
January 5, 1984

M/s. T. Rajan and Sons
Sayaji Rao Road
Mysore.
Order No. 6

Particulars	*Amount* Rs. P.
200 metres Wollen Suiting @ Rs./-	4,000.00
100 metres Cotswool @ Rs. 10/-	1,000.00
	5,000.00
Less 10%	500.00
	4,500.00

Rupees Four Thousand and Five Hundred only.
R/R enclosed.

E. & O.E. *For* NAVAJIVAN TRADING COMPANY

T. RAJAN & SONS

Sayaji Rao Road
Mysore
January 6, 1984

Cash Bill (Duplicate)

Particulars	*Amount* *Rs. P.*
30 metres Gwalior Suiting @ Rs. 24/-	*720 00*
Less ...	*20.00*
	700.00

Rupees Seven Hundred only.
Received—vide Cheque No. 48125 on State Bank of Mysore

For T. RAJAN AND SONS

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 7, 1984

CASH PAYMENT VOUCHER

Amount:	Rs. 125/-
Nature of Expense:	Curtains, Name Plates and Engraving Charges
Account Head:	Office Expenses Account

Signature of Receiver

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 8, 1984

CASH PAYMENT VOUCHER

Amount:	Rs. 250/-
Nature of Expense:	Advertisement in newspaper and slides
Account Head:	Advertisement Account

Signature of Receiver

Invoice No. 7

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 9, 1984

Messrs. Ramanarayan & Sons
Mandya
Order No. 48

Particulars	*Amount*
160 metres Suiting @ Rs. 10/-	1,600.00
20 metres Terrycot @ Rs. 25/-	500.00
	2,100.00

Rupees Two Thousand and One Hundred only.

E. & O. E. *For* T. RAJAN AND SONS

WELDON AND COMPANY

MOUNT ROAD, MADRAS
January 10, 1984

No. 1234

CASH RECEIPT
(ORIGINAL)

Received with thanks from Messrs. T. Rajan and Sons, Mysore, the sum of Rupees Two Thousand only, in part payment of Bill No. 826 dated January 2, 1984 through Cheque No. 12655/10-1-1984 on Central Bank of India Ltd., Mysore

Rs. 2,000/- *For* WELDON & CO.

Invoice No. 8

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 11, 1984

M/s Swamy Brothers
Hassan
Order No. 72

Particulars		*Amount*
		Rs. P.
50 metres of Suiting @ Rs. 18/-	...	900.00
Less Trade Discount	...	100.00
		800.00

Rupees Eight Hundred only
Goods sent by Lorry—Receipt enclosed.

E. & O.E *For* T. RAJAN & SONS

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 12, 1984

CASH RECEIPT
(DUPLICATE)

Received with thanks from Messrs. Ramnarayan & Company the sum of Rupees One Thousand only in part payment of our Bill No. 5, dated January 9, 1984, through cheque No. 48257 dated 12.1.1984 on the Canara Bank, Ltd., Mysore.

Rs. 1,000/- *For* T. RAJAN & SONS

Invoice No. 287

NAVAJIVAN TRADING COMPANY

124, ABID ROAD, HYDERABAD
January 13, 1984

Messrs. T. Rajan and Sons,
Sayaji Rao Road, Mysore.

Order No. 21

Particulars	*Amount*
	Rs. P.
30 Sarees—full voil @ Rs. 50/- each	1,500.00
	1,500.00

Rupees One Thousand Five Hundred only.

E. & O. E. *For* NAVAJIVAN TRADING COMPANY

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 14, 1984

CASH PAYMENT VOUCHER

Amount:	Rs. 50/-
Nature of Expense:	Unloading charge at Goods Shed and transportation to godwon
Account Head:	Carriage Account
Paid by:	Cheque No. 12656 dated 14.1.1984

Signature of the Receiver

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 8, 1984

CASH BILL (Duplicate)

Particulars		*Amount*
		Rs. P.
50 Metres of Costwool @ Rs. 15/-	....	750.00
		750.00

Rupees Seven Hundred and Fifty only.
Received Cash.

For T. RAJAN & SONS

BILL OF EXCHANGE

Mysore
January 16, 1984

ACCEPTED
SWAMY BROS.

STAMP

One month after date pay Messrs. T. Rajan & Sons or order the sum of Rupees Three Hundred only, value received.

For T. RAJAN & SONS
R. RAJAN

Rs. 300.-

To
Messrs. Swamy Brothers
Clothiers, Hassan.

PURNIMA SILK HOUSE

Chickpet, Bangalore
January 17, 1984

CASH BILL (Original)

Messrs. T. Rajan & Sons.
Mysore

Particulars	*Amount*
	Rs. P.
80 metres of Silk @ Rs. 12/-	960.00
Sales Tax ...	48.00
	1008.00

Rupees One Thousand and Eight only.
Paid in full settlement (Vide Cheque No. 12657 on Central Bank of India Ltd. Mysore.)

For PURNIMA SILK HOUSE

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 24, 1984

CASH PAYMENT VOUCHER

Amount:	Rs. 250/-
Nature of Expense:	Mr. T. Rajan withdrew for personal use
Account Head:	Mr. T. Rajan's Drawing Account
Paid by:	Cheque No. 12658 dated 24.1.1984

Signature of the Receiver

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 25, 1984

CASH PAYMENT VOUCHER

Amount:	Rs. 350/-
Nature of Expense.	Premium of Fire and Burglary Insurance for the month and munucipal taxes
Account Head:	Taxes and Insurance
Paid by:	Cheque No. 12659 dated 25.1.1984

Signature of the Receiver

PROMISSORY NOTE

Mysore
January 25, 1984

Rs. 4,000/-

STAMP

Two months after date, I/We promise to pay Messrs. Navajivan Trading Company or order the sum of Rupees Four Thousand only for value received.

For T Rajan & Sons
T. RAJAN
(Maker)

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
January 26, 1984

CASH BILL (Duplicate)

Particulars	*Amount*
Rs. P	
4 Sarees @ Rs. 60/-	240.00
4 Metres Silk @ Rs. 15/-	60.00
	300 00

Received Rupees Three Hundred only in Cash.

For T RAJAN AND SONS

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
Dated January 30, 1984

CASH PAYMENT VOUCHER

Amount·	Rs 400/-
Nature of Expense.	Printing of receipt books, cash memos, letter-heads and calendars
Account Head·	Printing Charges Account
Paid by:	Cheque No. 12662 dated 30.1.1984

Signature of the Receiver

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
Dated: January 30, 1984

CASH PAYMENT VOUCHER

Amount:	Rs. 150/-
Nature of Expense:	Rent of Office premises for January 1984
Account Head:	Rent Account
Paid by:	Cheque No. 12661 dated 30.1.1984

Signature of the Receiver

T. RAJAN AND SONS

SAYAJI RAO ROAD
Mysore
Dated: January 30, 1984

CASH PAYMENT VOUCHER

Amount:	Rs. 400/-
Nature of Expense.	Payment of January Salary to Saleman and Book-keeper and Office Boy
Account Head:	Salary Account
Paid by:	Cheque No. 12660 dated 30.1.1984

Signature of the Receiver

T. RAJAN AND SONS

MEMORANDUM

Enclosed is a list of unsold goods in stock on January 31, 1984. The total value of stock as per the list is Rs. 7,600 only.

Dated: 31.1.1984 *Signature of Valuer*

CHECK YOUR ANSWERS!

		Rs.
Trial Balance Total:	—	39,350
Gross Profit:	—	1,700
Net Profit:	—	25
Balance Sheet Total:	—	34,475

We can also show the process through the book-keeping equation as modified by each transaction:

Assets	=	*Liabilities*	+	*Capital*
1. 25,000	=	Nil	+	25,000
2. 30,700		5,700		25,000
3. 27,200		5,700		21,500
4. 27,200		5,700		21,500
5. 27,200		10,200		17,000
6. 27,900		10,200		17,700
7. 27,772		10,200		17,575
8. 27,525		10,200		17,325
9. 29,625		10,200		19,425
10. 27,625		8,200		19,425
11. 28,425		8,200		20,225
12. 28,425		8,200		20,225
13. 28,425		9,700		18,725
14. 28,375		9,700		18,675
15. 29,125		9,700		19,425
16. 29,125		9,700		19,425
17. 28,225		9,700		18,425
18. 27,875		9,700		18,175
19. 27,525		9,700		17,825
20. 27,525		9,700		17,825
21. 27,825		9,700		18,125
22. 27,425		9,700		17,725
23. 27,275		9,700		17,575
24. 26,875		9,700		17,175
25. 34,475		9,700		24,775

You will notice that the equation you get at the end is the same as your balance sheet. If you compare the beginning equation with the closing one, you will find that the capital has decreased by Rs. 225. This is because though T. Rajan and Sons have made a profit of Rs. 25, they have withdrawn Rs. 250 out of the capital during the month. Your book-keeping records tell the same stroy in greater details!